



CITY OF KENTWOOD, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

CITY OF KENTWOOD, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

December 8, 2008

Honorable Mayor and City Commissioners
Kentwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Kentwood, Michigan** (the "City"), as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kentwood, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kentwood, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2008, on our consideration of the City of Kentwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-13 and the pension and other postemployment benefits information on pages 51-53 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kentwood's basic financial statements. The combining and individual fund financial statements and schedules and the continuing disclosure filing are presented for purposes of additional analysis and are not a required part of the City of Kentwood's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The continuing disclosure filing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

As discussed in Note 13 to the financial statements, beginning capital assets were restated during the current year to reflect construction in progress that was expensed in prior periods, rather than being capitalized. Accordingly, beginning net assets of governmental activities as of July 1, 2007, have been restated to properly reflect these balances.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Kentwood, we offer readers of the City of Kentwood's financial statements this narrative overview and analysis of the financial activities of the City of Kentwood for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- 2008 was a year of continued capital investment for the City. Projects included:
- Continuation of sewer system capital improvements using proceeds from the general obligation limited tax bonds sold on March 2, 2005;
- Continuation of engineering, right-of-way acquisition and construction for the improvement of Kalamazoo Avenue – Phase I (from 52nd Street to 60th Street).
- Commencement of engineering and right-of-way acquisition for the improvement of Kalamazoo Avenue – Phase II (from 44th Street to 52nd Street).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kentwood's financial statements. The City of Kentwood's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Kentwood's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Kentwood assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Kentwood that are principally supported by taxes and intergovernmental revenues (*governmental activities*) or from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Kentwood include district court, public safety, highways and streets, engineering services, public works, culture and recreation, inspections and general administrative services. The business-type activities of the City of Kentwood include water and sewer services.

The government-wide financial statements include not only the City of Kentwood itself (known as the *primary government*), but also the legally separate City of Kentwood Building Authority – a component unit, for which the City of Kentwood is financially accountable. Financial information for this *component unit* is blended with the City debt service fund.

The government-wide financial statements can be found on pages 14-16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kentwood, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kentwood can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Following both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances are reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Kentwood maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, Police and Fire Millage Special Revenue Fund, Major Street Special Revenue Fund, and General Projects Capital Projects Fund, each of which are considered to be major funds. Data from the other 14 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Kentwood adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17-25 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insured dental plan. Because these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer operations, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Kentwood's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 29 and 30 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-49 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis and required pension and other postemployment benefits information. Required supplementary information regarding the pension and other postemployment benefits information can be found on pages 50- 52 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and continuing disclosure information are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 53-80 of this report and continuing disclosure information can be found on pages 83-91.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Kentwood, assets exceeded liabilities by \$97,288,713 at the close of the most recent fiscal year.

By far the largest portion of the City of Kentwood's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Kentwood uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Kentwood investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Kentwood's Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | | | |
| Current and other assets | \$ 57,101,312 | \$ 58,530,103 | \$ 8,195,702 | \$ 6,653,207 | \$ 65,297,014 | \$ 65,183,310 |
| Capital assets, net | 49,160,241 | 48,270,873 | 9,466,155 | 7,967,854 | 58,626,396 | 56,238,727 |
| Total assets | 106,261,553 | 106,800,976 | 17,661,857 | 14,621,061 | 123,923,410 | 121,422,037 |
| Liabilities | | | | | | |
| Long-term liabilities | 21,045,366 | 22,281,814 | - | - | 21,045,366 | 22,281,814 |
| Other liabilities | 4,849,498 | 3,489,175 | 739,833 | 577,217 | 5,589,331 | 4,066,392 |
| Total liabilities | 25,894,864 | 25,770,989 | 739,833 | 577,217 | 26,634,697 | 26,348,206 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 30,675,241 | 28,932,332 | 9,466,155 | 7,967,854 | 40,141,396 | 36,900,186 |
| Restricted | 29,902,763 | 32,403,419 | - | - | 29,902,763 | 32,403,419 |
| Unrestricted | 19,788,685 | 19,694,236 | 7,455,869 | 6,075,990 | 27,244,554 | 25,770,226 |
| Total net assets | \$ 80,366,689 | \$ 81,029,987 | \$ 16,922,024 | \$ 14,043,844 | \$ 97,288,713 | \$ 95,073,831 |

Net assets of governmental activities at year-end have been restricted primarily by funding sources for major, local and municipal streets, drains and street lighting. Of the net asset balance at year end, 38% is invested in capital assets net of related debt, 37% is restricted for other purposes and 25% is unrestricted and available for general City operations.

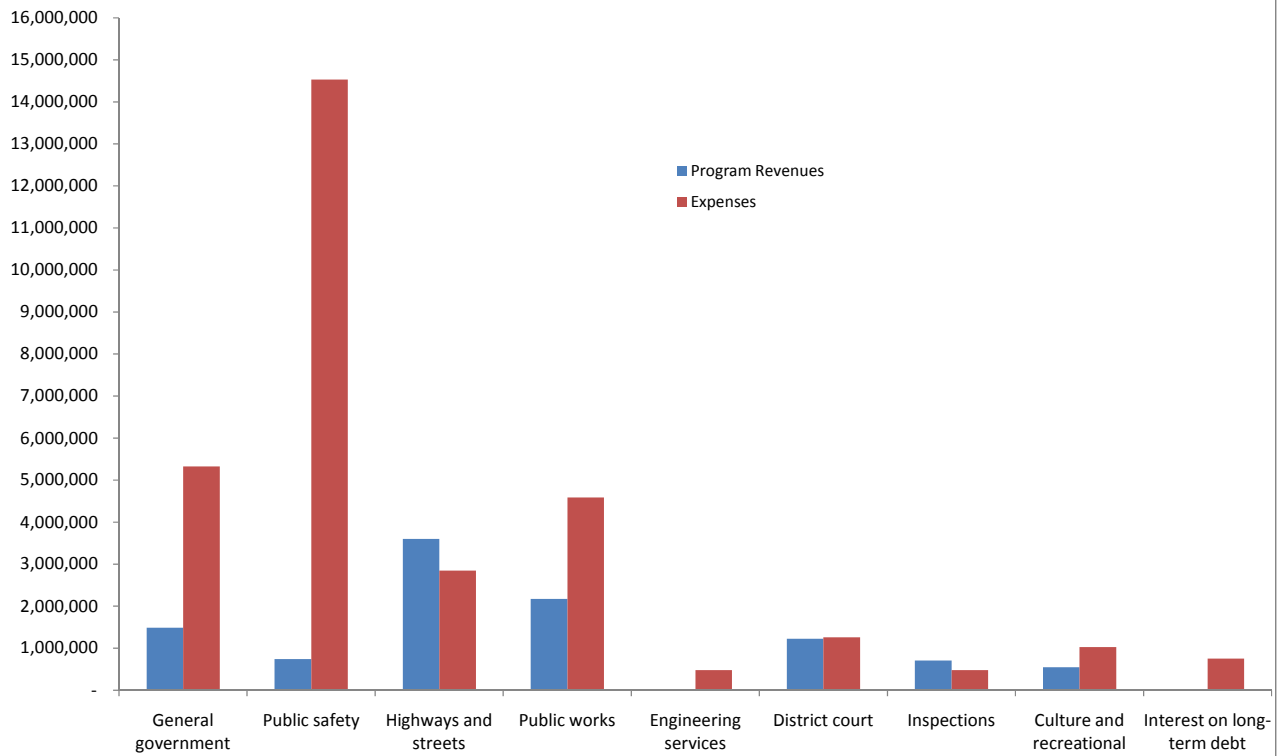
City of Kentwood's Changes in Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 7,316,920 | \$ 6,299,436 | \$ 5,528,673 | \$ 4,821,471 | \$ 12,845,593 | \$ 11,120,907 |
| Operating grants and contributions | 3,149,512 | 4,125,566 | - | - | 3,149,512 | 4,125,566 |
| Capital grants and contributions | - | 56,062 | - | - | - | 56,062 |
| General revenues: | | | | | | |
| Property taxes | 15,076,796 | 14,852,581 | - | - | 15,076,796 | 14,852,581 |
| State revenues | 3,354,831 | 3,341,302 | - | - | 3,354,831 | 3,341,302 |
| Other revenues | 2,759,163 | 1,640,383 | 471,529 | 323,540 | 3,230,692 | 1,963,923 |
| Total revenues | <u>31,657,222</u> | <u>30,315,330</u> | <u>6,000,202</u> | <u>5,145,011</u> | <u>37,657,424</u> | <u>35,460,341</u> |
| Expenses | | | | | | |
| General government | 5,325,683 | 3,833,754 | - | - | 5,325,683 | 3,833,754 |
| Public safety | 14,534,437 | 14,528,464 | - | - | 14,534,437 | 14,528,464 |
| Highways and streets | 2,845,626 | 2,851,238 | - | - | 2,845,626 | 2,851,238 |
| Public works | 4,584,349 | 4,505,193 | - | - | 4,584,349 | 4,505,193 |
| Engineering services | 477,714 | 462,062 | - | - | 477,714 | 462,062 |
| District court | 1,258,163 | 1,161,442 | - | - | 1,258,163 | 1,161,442 |
| Inspections | 477,345 | 507,910 | - | - | 477,345 | 507,910 |
| Culture and recreation | 1,026,795 | 959,088 | - | - | 1,026,795 | 959,088 |
| Interest on long-term debt | 750,904 | 789,929 | - | - | 750,904 | 789,929 |
| Indirect expense allocation | (468,043) | (516,694) | 468,043 | 516,694 | - | - |
| Water | - | - | 1,890,396 | 1,419,453 | 1,890,396 | 1,419,453 |
| Sewer | - | - | 2,271,131 | 2,208,968 | 2,271,131 | 2,208,968 |
| Total expenses | <u>30,812,973</u> | <u>29,082,386</u> | <u>4,629,570</u> | <u>4,145,115</u> | <u>35,442,543</u> | <u>33,227,501</u> |
| Change in net assets before transfers | 844,249 | 1,232,944 | 1,370,632 | 999,896 | 2,214,881 | 2,232,840 |
| Transfers | <u>(1,507,547)</u> | <u>360,294</u> | <u>1,507,547</u> | <u>(360,294)</u> | <u>-</u> | <u>-</u> |
| Change in net assets | (663,298) | 1,593,238 | 2,878,179 | 639,602 | 2,214,881 | 2,232,840 |
| Net assets, beginning of year, as restated | <u>81,029,987</u> | <u>79,436,749</u> | <u>14,043,845</u> | <u>13,404,243</u> | <u>95,073,832</u> | <u>92,840,992</u> |
| Net assets, end of year | <u>\$ 80,366,689</u> | <u>\$ 81,029,987</u> | <u>\$ 16,922,024</u> | <u>\$ 14,043,845</u> | <u>\$ 97,288,713</u> | <u>\$ 95,073,832</u> |

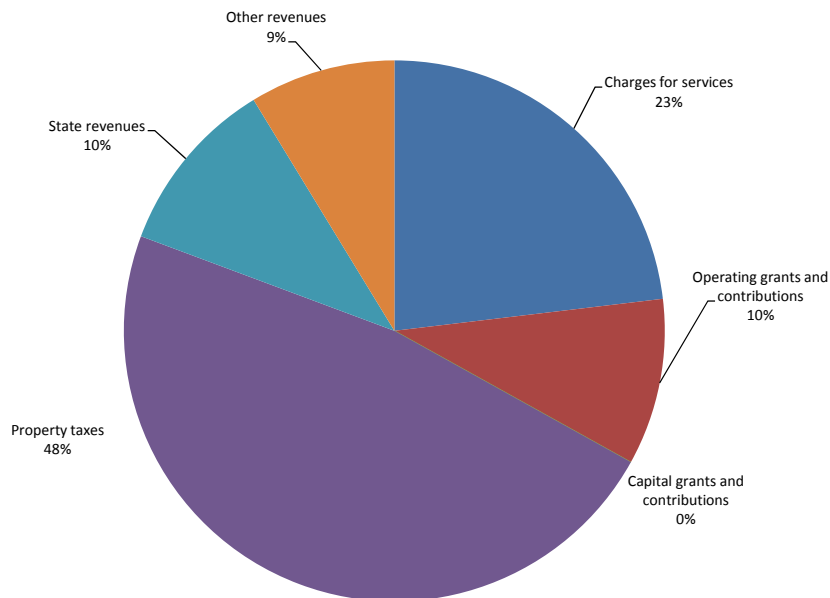
Governmental activities. Governmental activities decreased the City's net assets by \$663,298. Key elements of this decrease are as follows:

- The timing difference between construction of capital assets and depreciation of the assets over their estimated useful lives.
- The continuing use of fund balance in the Police and Fire Millage Special Revenue Fund to maintain police and fire service levels.

Expenses and Program Revenues - Governmental Activities



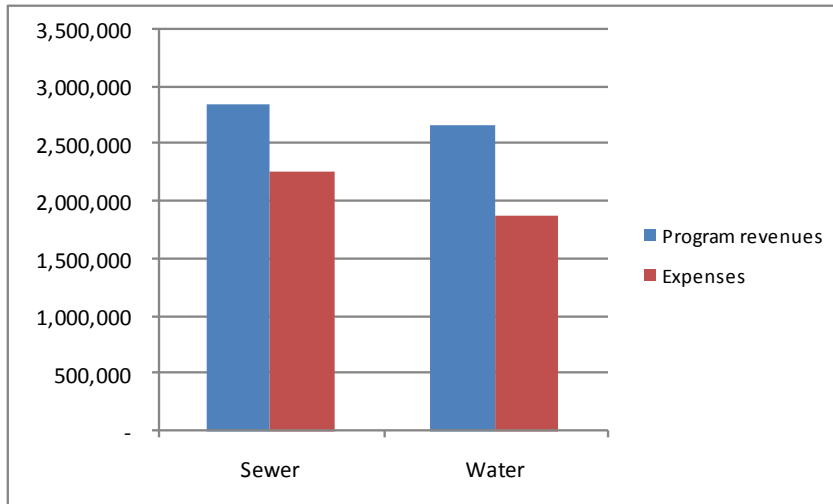
Revenues by Source - Governmental Activities



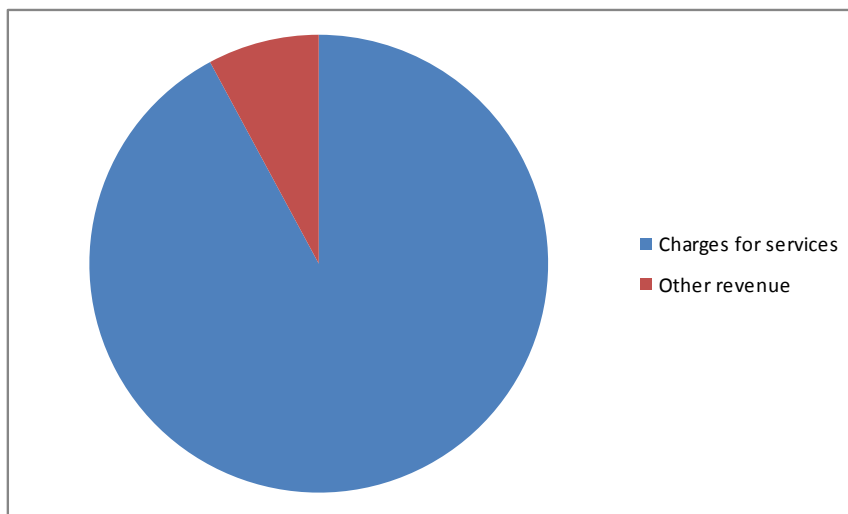
Business-type activities. Business-type activities increased the City's net assets by \$2,878,179. The key element of this increase was as follows:

- Capitalization of water system improvements funded by bonds sold in 2005.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Kentwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Kentwood's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Kentwood's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Kentwood's governmental funds reported combined ending fund balance of \$42,130,588, a decrease of \$3,519,020 compared with the prior year. This decrease was the result of on-going construction of sewer system improvements using the proceeds from bonds sold in 2005, a contribution from the Postemployment Benefits Special Revenue Fund to the Postemployment Benefits OPEB Trust Fund, street construction (in the Major and Local Street Funds funded in part by the Municipal Street Fund), continued use of Police and Fire Millage resources, and drain maintenance (in the Drain Fund), which was offset by repayments of special assessments receivable in the General Projects Capital Projects Fund, and accumulation of assets for future costs in the Landfill Remediation Special Revenue Fund.

The general fund is the chief operating fund of the City of Kentwood. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,649,456 while total fund balance reached \$5,072,198. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 18 percent of total general fund expenditures and transfers out, while total fund balance represents 20 percent of that same amount.

The fund balance of the City of Kentwood's general fund increased by \$10,187 during the current fiscal year.

Proprietary funds. The City of Kentwood's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$4,211,800 and \$3,244,069, respectively. The total changes in net assets for these funds were an increase of \$2,506,050 and \$372,129, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Kentwood's business-type activities.

General Fund Budgetary Highlights

- The General Fund budget was amended by City Commission resolution once during the fiscal year ended June 30, 2008.
- General Fund expenditure budget to actual variances are due to several factors including staffing vacancies (Assessments, Treasurer, Planning and Zoning, Police, and Inspections); changes in employee benefits costs that were less than budgeted (all departments with personnel); variations in contractual services and supplies needed (Administrative, Assessments, Information Technology, Accounting, Police, Public Works, and Recreation); and changes in customer utilization of activities (Recreation).

Capital Asset and Debt Administration

Capital assets. The City of Kentwood's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$58,626,396 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Capitalization of water system improvements, continuation of sewer system improvements, and continuation/commencement of street improvements.

City of Kentwood's Capital Assets (net of depreciation)

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|---------------------|
| Land | \$ 2,275,360 | \$ 60,949 | \$ 2,336,309 |
| Construction in progress | 5,788,895 | 66,463 | 5,855,358 |
| Building, equipment and infrastructure | 41,095,986 | 9,338,743 | 50,434,729 |
| Total | \$49,160,241 | \$9,466,155 | \$58,626,396 |

Additional information on the City of Kentwood's capital assets can be found in Note 5 on pages 41 and 42 of this report.

Long-term debt.

City of Kentwood's Long-term Debt

| | Governmental Activities | Business-type Activities | Total |
|--------------------------|------------------------------------|-------------------------------------|---------------------|
| General obligation bonds | \$18,485,000 | \$ - | \$18,485,000 |
| Other obligations | 2,560,366 | - | 2,560,366 |
| Total | \$21,045,366 | \$ - | \$21,045,366 |

During the year the City paid \$1,260,000 of principal on bonds outstanding at July 1, 2007.

At March 2, 2005, the City of Kentwood had a AA bond rating from both Standard & Poor's and Fitch. On March 13, 2008, Standard & Poor's affirmed the City's AA bond rating.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of the entity's total State Equalized Value. At June 30, 2008, the debt limitation for the City of Kentwood was \$228,150,225; the City's debt outstanding, net of \$4,170,000 of exempt self-supporting debt, was \$14,315,000, leaving a legal debt margin of \$213,835,225.

Additional information on the City of Kentwood long-term obligations can be found in Note 6 on page 43 of this report.

Economic Factors and Next Year's Budgets and Rates

The FY 2009 budget anticipates that total General Fund revenues and expenditures will increase, as compared to the FY 2008 budget, by 2.15% and 2.98%, respectively. These changes will result in a budget where expenditures exceed revenues by \$219,200. Further explanation of significant changes in the budget is, as follows:

Revenues

Property Taxes – The General Fund's budgeted property tax, its largest revenue source, is projected to increase 1.2%. The increase in taxable value of existing property, not affected by transfer of ownership or construction of additions, was limited by the Consumer Price Index (CPI) of 2.3%. These percentages differed due to property values that decreased, or increased at less than the rate of the CPI.

State Shared Revenue – The General Fund's budgeted state shared revenue, its second largest revenue source, when compared to the FY 2008 budget, is projected to increase by \$15,200, or 0.45%. The FY 2009 budget includes state shared revenue calculated using current estimates provided by the State of Michigan, which includes \$317,335 categorized as statutory revenue sharing.

Transfer from Other Funds – This revenue was first budgeted in FY 2000 with the change to collect all of the police and fire millage in the Police and Fire Millage Fund. The amount transferred is calculated based on the Police and Fire Department budgets reduced by the contribution (\$4,928,400) the City was making toward police and fire operations at the time the April 1999 millage increase was adopted. For the first time, the Police and Fire Millage to be collected in FY 2009 is not sufficient by \$809,500 to cover Police and Fire Department budgets reduced by \$4,928,400. In FY 2009, this revenue includes \$650,000 of unexpended FY 2007 appropriations held in the Property and Building Fund for use in a later budget year.

Expenditures

Compensation and employee benefits for City employees are estimated and included in the FY 2009 budget using provisions in completed collective bargaining agreements, and based on potential contract changes for unsettled collective bargaining agreements. Two of the City's collective bargaining agreements are settled for FY 2009. Negotiations with two of the four employee bargaining units commenced during FY 2008, with both contracts expiring on June 30, 2008, and were not settled at adoption of the FY 2009 budget. Since June 30, 2008, agreement has been reached with one of the two bargaining units.

Requests for Information

This financial report is designed to provide a general overview of the City of Kentwood finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Thomas H. Chase, Finance Director, City of Kentwood, P.O. Box 8848, Kentwood, MI 49518-8848.

BASIC FINANCIAL STATEMENTS

CITY OF KENTWOOD, MICHIGAN

Statement of Net Assets

June 30, 2008

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|----------------------|
| Assets | | | |
| Cash and pooled investments | \$ 42,360,838 | \$ 7,081,550 | \$ 49,442,388 |
| Accounts receivable | 1,517,924 | 1,113,004 | 2,630,928 |
| Special assessments receivable | 10,269,568 | - | 10,269,568 |
| Loans receivable | 245,201 | - | 245,201 |
| Due from other governments | 2,277,513 | - | 2,277,513 |
| Prepaid items and other assets | 430,268 | 1,148 | 431,416 |
| Capital assets: | | | |
| Land | 2,275,360 | 60,949 | 2,336,309 |
| Construction in progress | 5,788,895 | 66,463 | 5,855,358 |
| Capital assets being depreciated, net | 41,095,986 | 9,338,743 | 50,434,729 |
| Total assets | 106,261,553 | 17,661,857 | 123,923,410 |
| Liabilities | | | |
| Accounts payable and accrued expenses | 2,893,421 | 739,833 | 3,633,254 |
| Accrued wages | 335,665 | - | 335,665 |
| Customer deposits | 599,690 | - | 599,690 |
| Due to other governments | 941,796 | - | 941,796 |
| Unearned revenue | 78,926 | - | 78,926 |
| Long-term liabilities: | | | |
| Due within one year | 1,400,000 | - | 1,400,000 |
| Due in more than one year | 19,645,366 | - | 19,645,366 |
| Total liabilities | 25,894,864 | 739,833 | 26,634,697 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 30,675,241 | 9,466,155 | 40,141,396 |
| Restricted for: | | | |
| Police and fire milllage | 320,733 | - | 320,733 |
| Major street | 8,598,776 | - | 8,598,776 |
| Local street | 2,007,128 | - | 2,007,128 |
| Municipal street | 5,204,370 | - | 5,204,370 |
| Economic development | 939,792 | - | 939,792 |
| Housing commission | 220,546 | - | 220,546 |
| Parks | 1,088,567 | - | 1,088,567 |
| Street lighting | 2,221,796 | - | 2,221,796 |
| Landfill remediation | 1,624,367 | - | 1,624,367 |
| Drains | 4,991,283 | - | 4,991,283 |
| Capital projects | 2,685,405 | - | 2,685,405 |
| Unrestricted | 19,788,685 | 7,455,869 | 27,244,554 |
| Total net assets | \$ 80,366,689 | \$ 16,922,024 | \$ 97,288,713 |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2008

| <u>Functions / Programs</u> | <u>Expenses</u> | <u>Indirect Expense Allocation</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue</u> |
|---------------------------------|----------------------|--|---------------------------------|---|----------------------------------|
| | | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| Governmental activities | | | | | |
| General government | \$ 5,325,683 | \$ (643,251) | \$ 1,393,857 | \$ 91,951 | \$ (3,196,624) |
| Public safety | 14,534,437 | 383,408 | 542,151 | 197,911 | (14,177,783) |
| Highways and streets | 2,845,626 | 899,537 | 884,754 | 2,716,689 | (143,720) |
| Public works | 4,584,349 | (1,061,693) | 2,171,232 | - | (1,351,424) |
| Engineering services | 477,714 | (271,554) | - | - | (206,160) |
| District court | 1,258,163 | 58,444 | 1,163,460 | 57,718 | (95,429) |
| Inspections | 477,345 | 4,592 | 703,141 | - | 221,204 |
| Culture and recreation | 1,026,795 | 162,474 | 458,325 | 85,243 | (645,701) |
| Interest on long-term debt | 750,904 | - | - | - | (750,904) |
| Total governmental activities | <u>31,281,016</u> | <u>(468,043)</u> | <u>7,316,920</u> | <u>3,149,512</u> | <u>(20,346,541)</u> |
| Business-type activities | | | | | |
| Water | 1,890,396 | 302,603 | 2,668,669 | - | 475,670 |
| Sewer | 2,271,131 | 165,440 | 2,860,004 | - | 423,433 |
| Total business-type activities | <u>4,161,527</u> | <u>468,043</u> | <u>5,528,673</u> | <u>-</u> | <u>899,103</u> |
| Total | <u>\$ 35,442,543</u> | <u>\$ -</u> | <u>\$ 12,845,593</u> | <u>\$ 3,149,512</u> | <u>\$ (19,447,438)</u> |

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN

Statement of Activities (Continued)

For the Year Ended June 30, 2008

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|----------------------|
| Changes in net assets | | | |
| Net (expense) revenue | \$ (20,346,541) | \$ 899,103 | \$ (19,447,438) |
| General revenues: | | | |
| Property taxes: | | | |
| General operating | 6,003,561 | - | 6,003,561 |
| Police and fire | 8,605,925 | - | 8,605,925 |
| Other purposes | 467,310 | - | 467,310 |
| State shared revenues | 3,354,831 | - | 3,354,831 |
| Gain on sale of capital assets | 108,626 | - | 108,626 |
| Interest earnings | 2,182,997 | 471,529 | 2,654,526 |
| Other general revenues | 467,540 | - | 467,540 |
| Transfers - internal activities | (1,507,547) | 1,507,547 | - |
| Total general revenues and transfers | 19,683,243 | 1,979,076 | 21,662,319 |
| Change in net assets | (663,298) | 2,878,179 | 2,214,881 |
| Net assets, beginning of year, as restated | 81,029,987 | 14,043,845 | 95,073,832 |
| Net assets, end of year | <u>\$ 80,366,689</u> | <u>\$ 16,922,024</u> | <u>\$ 97,288,713</u> |

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN

Balance Sheet Governmental Funds June 30, 2008

| | | Special Revenue | |
|--|---------------------|-------------------------|---------------------|
| | General Fund | Police and Fire Millage | Major Street |
| Assets | | | |
| Cash and pooled investments | \$ 4,402,680 | \$ 606,110 | \$ 8,422,157 |
| Accounts receivable | 1,500,375 | - | 13,624 |
| Special assessments receivable | - | - | - |
| Loans receivable | - | - | - |
| Due from other governments | 1,159,242 | - | 1,001,924 |
| Inventory | 6,954 | - | - |
| Prepaid items | 415,788 | - | 4,312 |
| Total assets | \$ 7,485,039 | \$ 606,110 | \$ 9,442,017 |
| Liabilities and fund balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 717,121 | \$ 285,377 | \$ 443,241 |
| Accrued wages | 335,665 | - | - |
| Customer deposits | 199,690 | - | 400,000 |
| Due to other governments | 938,725 | - | - |
| Deferred revenue | 221,640 | - | - |
| Total liabilities | 2,412,841 | 285,377 | 843,241 |
| Fund balances | | | |
| Reserved for: | | | |
| Inventory | 6,954 | - | - |
| Prepaid items | 415,788 | - | 4,312 |
| Nonmajor special revenue funds - noncurrent mortgage loans | - | - | - |
| Unreserved: | | | |
| Designated for parks and recreation | - | - | - |
| Undesignated, reported in: | | | |
| General fund | 4,649,456 | - | - |
| Special revenue funds | - | 320,733 | 8,594,464 |
| Capital projects funds | - | - | - |
| Total fund balances | 5,072,198 | 320,733 | 8,598,776 |
| Total liabilities and fund balances | \$ 7,485,039 | \$ 606,110 | \$ 9,442,017 |

The accompanying notes are an integral part of these financial statements.

| Capital Projects | | |
|-----------------------------|--|---|
| General Projects | Nonmajor Governmental Funds | Total Governmental Funds |
| \$ 1,812,288 | \$ 27,081,189 | \$ 42,324,424 |
| - | 3,925 | 1,517,924 |
| 9,962,960 | 306,608 | 10,269,568 |
| - | 245,201 | 245,201 |
| - | 116,347 | 2,277,513 |
| - | - | 6,954 |
| - | 3,214 | 423,314 |
| <u>\$ 11,775,248</u> | <u>\$ 27,756,484</u> | <u>\$ 57,064,898</u> |

| | | |
|------------------|------------------|-------------------|
| \$ - | \$ 1,230,293 | \$ 2,676,032 |
| - | - | 335,665 |
| - | - | 599,690 |
| - | 3,071 | 941,796 |
| <u>9,856,275</u> | <u>303,212</u> | <u>10,381,127</u> |
| <u>9,856,275</u> | <u>1,536,576</u> | <u>14,934,310</u> |

| | | |
|----------------------|----------------------|----------------------|
| - | - | 6,954 |
| - | 3,214 | 423,314 |
| - | 230,200 | 230,200 |
| - | 445,160 | 445,160 |
| - | - | 4,649,456 |
| - | 24,774,902 | 33,690,099 |
| <u>1,918,973</u> | <u>766,432</u> | <u>2,685,405</u> |
| <u>1,918,973</u> | <u>26,219,908</u> | <u>42,130,588</u> |
| <u>\$ 11,775,248</u> | <u>\$ 27,756,484</u> | <u>\$ 57,064,898</u> |

CITY OF KENTWOOD, MICHIGAN

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2008

| | |
|--|---------------|
| Fund balances - total governmental funds | \$ 42,130,588 |
|--|---------------|

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

| | |
|----------------------------|------------|
| Add - capital assets (net) | 49,160,241 |
|----------------------------|------------|

Certain assets, such as special assessments receivable, are not due and receivable in the
current period and therefore are offset with deferred revenue in the funds.

| | |
|--|------------|
| Add - deferred special assessments receivable | 10,159,487 |
| Add - deferred delinquent personal property taxes receivable | 142,714 |

Certain liabilities, such as bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

| | |
|--|------------------|
| Deduct - compensated absences payable | (1,230,310) |
| Deduct - landfill clean up and other costs | (1,330,056) |
| Deduct - bonds payable | (18,485,000) |
| Deduct - accrued interest on bonds payable | <u>(180,975)</u> |

| | |
|---------------------------------------|-----------------------------|
| Net assets of governmental activities | <u><u>\$ 80,366,689</u></u> |
|---------------------------------------|-----------------------------|

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

| | | <u>Special Revenue</u> | |
|---|----------------------------|------------------------------------|----------------------------|
| | <u>General Fund</u> | <u>Police and Fire Millage</u> | <u>Major Streets</u> |
| Revenue | | | |
| Taxes | \$ 6,026,995 | \$ 8,605,925 | \$ - |
| Special assessments | - | - | - |
| Intergovernmental | 3,596,769 | - | 2,046,617 |
| Licenses and permits | 1,261,808 | - | - |
| Charges for services | 3,635,687 | - | - |
| Fines and forfeits | 1,266,988 | - | - |
| Investment income | 487,117 | 310,257 | 585,575 |
| Miscellaneous | 157,324 | - | 68,828 |
| | <u>16,432,688</u> | <u>8,916,182</u> | <u>2,701,020</u> |
| Total revenue | | | |
| Expenditures | | | |
| Current: | | | |
| General government | 4,440,897 | - | - |
| Public safety | 14,351,555 | 20,000 | - |
| Highways and streets | - | - | 1,097,510 |
| Public works | 2,614,106 | - | - |
| Engineering services | 479,760 | - | - |
| District court | 1,316,607 | - | - |
| Inspections | 481,937 | - | - |
| Culture and recreation | 1,068,898 | - | - |
| Debt service: | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| Capital outlay | - | - | 1,946,227 |
| | <u>24,753,760</u> | <u>20,000</u> | <u>3,043,737</u> |
| Total expenditures | | | |
| Revenues (under) over expenditures | <u>(8,321,072)</u> | <u>8,896,182</u> | <u>(342,717)</u> |
| Other financing sources (uses) | | | |
| Sale of capital assets | 86 | - | - |
| Transfers in | 9,331,173 | - | 879,973 |
| Transfers out | (1,000,000) | (9,314,673) | - |
| | <u>8,331,259</u> | <u>(9,314,673)</u> | <u>879,973</u> |
| Total other financing sources (uses) | | | |
| Net change in fund balances | 10,187 | (418,491) | 537,256 |
| Fund balances, beginning of year | 5,062,011 | 739,224 | 8,061,520 |
| Fund balances, end of year | <u><u>\$ 5,072,198</u></u> | <u><u>\$ 320,733</u></u> | <u><u>\$ 8,598,776</u></u> |

The accompanying notes are an integral part of these financial statements.

| Capital Projects | | |
|-----------------------------|--|---|
| General Projects | Nonmajor Governmental Funds | Total Governmental Funds |
| \$ - | \$ 501,893 | \$ 15,134,813 |
| 270,326 | 4,686 | 275,012 |
| - | 776,040 | 6,419,426 |
| - | 17,929 | 1,279,737 |
| - | 1,201,886 | 4,837,573 |
| - | - | 1,266,988 |
| 853,891 | 2,164,814 | 4,401,654 |
| - | 224,729 | 450,881 |
| <u>1,124,217</u> | <u>4,891,977</u> | <u>34,066,084</u> |
| - | 1,572,912 | 6,013,809 |
| - | 15,000 | 14,386,555 |
| - | 1,425,691 | 2,523,201 |
| - | 737,428 | 3,351,534 |
| - | - | 479,760 |
| - | - | 1,316,607 |
| - | - | 481,937 |
| - | 18,700 | 1,087,598 |
| - | 1,260,000 | 1,260,000 |
| - | 761,108 | 761,108 |
| <u>163,681</u> | <u>4,387,412</u> | <u>6,497,320</u> |
| <u>163,681</u> | <u>10,178,251</u> | <u>38,159,429</u> |
| <u>960,536</u> | <u>(5,286,274)</u> | <u>(4,093,345)</u> |
| - | 126,911 | 126,997 |
| - | 3,110,914 | 13,322,060 |
| <u>-</u> | <u>(2,560,059)</u> | <u>(12,874,732)</u> |
| <u>-</u> | <u>677,766</u> | <u>574,325</u> |
| 960,536 | (4,608,508) | (3,519,020) |
| <u>958,437</u> | <u>30,828,416</u> | <u>45,649,608</u> |
| <u>\$ 1,918,973</u> | <u>\$ 26,219,908</u> | <u>\$ 42,130,588</u> |

CITY OF KENTWOOD, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$(3,519,020)

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

| | |
|--|-------------|
| Add - capital outlay | 6,408,192 |
| Deduct - transfer of construction in progress to enterprise fund | (1,954,875) |
| Deduct - depreciation expense | (3,545,578) |
| Deduct - proceeds from sale of capital assets | (126,997) |
| Add - gain on disposal of capital assets | 108,626 |

Special assessments and personal property taxes receivable are long-term in nature
and are collectible over several years. However the current receipts are reflected as
revenues on the fund statements.

| | |
|---|----------|
| Add - increase in deferred special assessments receivable | 743,136 |
| Deduct - decrease in personal property taxes receivable | (23,434) |

Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

| | |
|---|-----------|
| Add - principal payments on long-term liabilities | 1,260,000 |
| Deduct - change in other long-term liabilities | (1,522) |

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

| | |
|--|----------|
| Deduct - increase in compensated absences | (22,030) |
| Add - decrease in accrued interest payable | 10,204 |

| | |
|---|--------------|
| Change in net assets of governmental activities | \$ (663,298) |
|---|--------------|

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|----------------------------|---------------------------|---------------------------|---|
| Revenue | | | | |
| Taxes | \$6,241,300 | \$6,241,300 | \$6,026,995 | \$ (214,305) |
| Licenses and permits | 1,222,300 | 1,222,300 | 1,261,808 | 39,508 |
| Intergovernmental | 3,515,100 | 3,515,100 | 3,596,769 | 81,669 |
| Charges for services | 3,936,700 | 3,936,700 | 3,635,687 | (301,013) |
| Fines and forfeits | 1,380,000 | 1,380,000 | 1,266,988 | (113,012) |
| Investment income | 300,000 | 300,000 | 487,117 | 187,117 |
| Miscellaneous | 101,000 | 101,000 | 157,324 | 56,324 |
| | <u>16,696,400</u> | <u>16,696,400</u> | <u>16,432,688</u> | <u>(263,712)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,818,200 | 4,832,700 | 4,440,897 | (391,803) |
| Public safety | 14,874,100 | 14,874,100 | 14,351,555 | (522,545) |
| Engineering services | 509,700 | 509,700 | 479,760 | (29,940) |
| Public works | 2,755,900 | 2,755,900 | 2,614,106 | (141,794) |
| District court | 1,340,100 | 1,340,100 | 1,316,607 | (23,493) |
| Inspections | 535,100 | 535,100 | 481,937 | (53,163) |
| Culture and recreation | 1,071,700 | 1,071,700 | 1,068,898 | (2,802) |
| | <u>25,904,800</u> | <u>25,919,300</u> | <u>24,753,760</u> | <u>(1,165,540)</u> |
| Total expenditures | <u>25,904,800</u> | <u>25,919,300</u> | <u>24,753,760</u> | <u>(1,165,540)</u> |
| Revenue (under) over expenditures | <u>(9,208,400)</u> | <u>(9,222,900)</u> | <u>(8,321,072)</u> | <u>901,828</u> |
| Other financing sources (uses) | | | | |
| Sale of capital assets | 1,000 | 1,000 | 86 | (914) |
| Transfers in | 9,905,700 | 9,955,700 | 9,331,173 | (624,527) |
| Transfers out | (695,000) | (695,000) | (1,000,000) | (305,000) |
| | <u>9,211,700</u> | <u>9,261,700</u> | <u>8,331,259</u> | <u>(930,441)</u> |
| Total other financing sources (uses) | <u>9,211,700</u> | <u>9,261,700</u> | <u>8,331,259</u> | <u>(930,441)</u> |
| Net change in fund balance | 3,300 | 38,800 | 10,187 | (28,613) |
| Fund balance, beginning of year | <u>5,062,011</u> | <u>5,062,011</u> | <u>5,062,011</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$5,065,311</u></u> | <u><u>\$5,100,811</u></u> | <u><u>\$5,072,198</u></u> | <u><u>\$ (28,613)</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Police and Fire Millage Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|----------------------------------|----------------------------|---------------------------|--------------------------|---|
| Revenue | | | | |
| Taxes | \$ 8,932,800 | \$ 8,932,800 | \$ 8,605,925 | \$ (326,875) |
| Investment income | <u>200,000</u> | <u>200,000</u> | <u>310,257</u> | <u>110,257</u> |
| Total revenue | 9,132,800 | 9,132,800 | 8,916,182 | (216,618) |
| Expenditures | | | | |
| Current: | | | | |
| Administrative | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> | <u>-</u> |
| Revenues over expenditures | 9,112,800 | 9,112,800 | 8,896,182 | (216,618) |
| Other financing uses | | | | |
| Transfers out | <u>(9,914,100)</u> | <u>(9,914,100)</u> | <u>(9,314,673)</u> | <u>599,427</u> |
| Net change in fund balance | (801,300) | (801,300) | (418,491) | 382,809 |
| Fund balance, beginning of year | <u>739,224</u> | <u>739,224</u> | <u>739,224</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ (62,076)</u></u> | <u><u>\$ (62,076)</u></u> | <u><u>\$ 320,733</u></u> | <u><u>\$ 382,809</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Major Street Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|---|
| Revenue | | | | |
| Intergovernmental | \$ 2,358,900 | \$ 2,358,900 | \$ 2,046,617 | \$ (312,283) |
| Investment income | 220,000 | 220,000 | 585,575 | 365,575 |
| Miscellaneous | <u>37,200</u> | <u>37,200</u> | <u>68,828</u> | <u>31,628</u> |
| Total revenue | <u>2,616,100</u> | <u>2,616,100</u> | <u>2,701,020</u> | <u>84,920</u> |
| Expenditures | | | | |
| Current: | | | | |
| Engineering | 25,000 | 25,000 | 453,544 | 428,544 |
| Administrative | 175,900 | 175,900 | 184,000 | 8,100 |
| Maintenance | 431,000 | 431,000 | 170,211 | (260,789) |
| Snow and ice removal | 102,000 | 102,000 | 90,187 | (11,813) |
| Traffic control | 100,000 | 100,000 | 89,916 | (10,084) |
| Miscellaneous | 328,600 | 328,600 | 109,652 | (218,948) |
| Capital outlay | <u>3,531,400</u> | <u>3,531,400</u> | <u>1,946,227</u> | <u>(1,585,173)</u> |
| Total expenditures | <u>4,693,900</u> | <u>4,693,900</u> | <u>3,043,737</u> | <u>(1,650,163)</u> |
| Revenue (under) over expenditures | (2,077,800) | (2,077,800) | (342,717) | 1,735,083 |
| Other financing sources | | | | |
| Transfers in | <u>-</u> | <u>780,000</u> | <u>879,973</u> | <u>99,973</u> |
| Net change in fund balance | (2,077,800) | (1,297,800) | 537,256 | 1,835,056 |
| Fund balance, beginning of year | <u>8,061,520</u> | <u>8,061,520</u> | <u>8,061,520</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 5,983,720</u></u> | <u><u>\$ 6,763,720</u></u> | <u><u>\$ 8,598,776</u></u> | <u><u>\$ 1,835,056</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN

Proprietary Funds Statement of Net Assets June 30, 2008

| | Business-type Activities - Enterprise Funds | | | Governmental Activities Self-insurance Fund |
|----------------------------------|--|-----------------------|---------------------|--|
| | Water Fund | Sewer Fund | Total | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 3,870,284 | \$ 3,211,266 | \$ 7,081,550 | \$ 36,414 |
| Accounts receivable | 524,009 | 588,995 | 1,113,004 | - |
| Prepaid items | 1,020 | 128 | 1,148 | |
| Total current assets | 4,395,313 | 3,800,389 | 8,195,702 | 36,414 |
| Noncurrent assets: | | | | |
| Land | 60,949 | - | 60,949 | - |
| Construction in progress | 66,463 | - | 66,463 | - |
| Capital assets being depreciated | 12,835,925 | 12,489,515 | 25,325,440 | - |
| Less accumulated depreciation | (6,622,689) | (9,364,008) | (15,986,697) | - |
| Total noncurrent assets | 6,340,648 | 3,125,507 | 9,466,155 | - |
| Total assets | 10,735,961 | 6,925,896 | 17,661,857 | 36,414 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 183,513 | 556,320 | 739,833 | 36,414 |
| Net assets | | | | |
| Invested in capital assets | 6,340,648 | 3,125,507 | 9,466,155 | - |
| Unrestricted | 4,211,800 | 3,244,069 | 7,455,869 | - |
| Total net assets | \$ 10,552,448 | \$ 6,369,576 | \$16,922,024 | \$ - |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN
Proprietary Funds
Statement of Revenue, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008

| | Business-type Activities - Enterprise Funds | | | Governmental Activities |
|---------------------------------------|--|----------------------------|-----------------------------|--------------------------------|
| | Water Fund | Sewer Fund | Total | Self-insurance Fund |
| Operating revenue | <u>\$ 2,668,669</u> | <u>\$ 2,860,004</u> | <u>\$ 5,528,673</u> | <u>\$ 187,145</u> |
| Operating expenses | | | | |
| Administration | 25,000 | - | 25,000 | - |
| Contractual services | 1,556,034 | 1,930,099 | 3,486,133 | 8,849 |
| Depreciation | 286,276 | 254,482 | 540,758 | - |
| Claims | - | - | - | 178,803 |
| Supplies | 178,377 | 78,937 | 257,314 | - |
| Engineering | 13,616 | 124,266 | 137,882 | - |
| Utilities | 66,964 | 6,013 | 72,977 | - |
| Miscellaneous | 66,732 | 42,774 | 109,506 | - |
| Total operating expenses | <u>2,192,999</u> | <u>2,436,571</u> | <u>4,629,570</u> | <u>187,652</u> |
| Operating income (loss) | 475,670 | 423,433 | 899,103 | (507) |
| Nonoperating revenue | | | | |
| Investment income | <u>265,885</u> | <u>205,644</u> | <u>471,529</u> | <u>507</u> |
| Net income before transfers | 741,555 | 629,077 | 1,370,632 | - |
| Other financing sources (uses) | | | | |
| Transfers in | 317 | - | 317 | - |
| Transfers out | <u>(190,697)</u> | <u>(256,948)</u> | <u>(447,645)</u> | <u>-</u> |
| Total other financing sources (uses) | (190,380) | (256,948) | (447,328) | - |
| Capital contributions | <u>1,954,875</u> | <u>-</u> | <u>1,954,875</u> | <u>-</u> |
| Change in net assets | 2,506,050 | 372,129 | 2,878,179 | - |
| Net assets, beginning of year | <u>8,046,398</u> | <u>5,997,447</u> | <u>14,043,845</u> | <u>-</u> |
| Net assets, end of year | <u><u>\$ 10,552,448</u></u> | <u><u>\$ 6,369,576</u></u> | <u><u>\$ 16,922,024</u></u> | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN

Proprietary Funds Statement of Cash Flows For the Year Ended June 30, 2008

| | Business-type Activities - Enterprise Funds | | | Governmental Activities |
|---|--|-----------------------|---------------------|------------------------------------|
| | Water Fund | Sewer Fund | Total | Self-insurance Fund |
| Cash flows from operating activities | | | | |
| Receipts from customers and users | \$ 2,625,094 | \$ 2,803,139 | \$ 5,428,233 | \$ - |
| Receipts from interfund services provided | - | - | - | 187,145 |
| Payments to suppliers | (2,009,764) | (1,917,315) | (3,927,079) | (172,538) |
| Net cash provided by operating activities | 615,330 | 885,824 | 1,501,154 | 14,607 |
| Cash flows from non-capital financing activities | | | | |
| Transfers in | 317 | - | 317 | - |
| Transfers out | (190,697) | (256,948) | (447,645) | - |
| Net cash used in non-capital financing activities | (190,380) | (256,948) | (447,328) | - |
| Cash flows from capital and related financing activities | | | | |
| Acquisition of capital assets | (2,038,118) | (941) | (2,039,059) | - |
| Capital contributions | 1,954,875 | - | 1,954,875 | - |
| Net cash used in capital and related financing activities | (83,243) | (941) | (84,184) | - |
| Cash flows from investing activities | | | | |
| Interest earned on investments | 265,885 | 205,644 | 471,529 | 507 |
| Net increase in cash and pooled investments | 607,592 | 833,579 | 1,441,171 | 15,114 |
| Cash and pooled investments, beginning of year | 3,262,692 | 2,377,687 | 5,640,379 | 21,300 |
| Cash and pooled investments, end of year | \$ 3,870,284 | \$ 3,211,266 | \$ 7,081,550 | \$ 36,414 |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | | |
| Operating income (loss) | \$ 475,670 | \$ 423,433 | \$ 899,103 | \$ (507) |
| Depreciation expense | 286,276 | 254,482 | 540,758 | - |
| Changes in operating assets and liabilities which provided (used) cash: | | | | |
| Accounts receivable | (43,575) | (56,865) | (100,440) | - |
| Prepaid items | (755) | (128) | (883) | - |
| Accounts payable | (102,286) | 264,902 | 162,616 | 15,114 |
| Net cash provided by operating activities | \$ 615,330 | \$ 885,824 | \$ 1,501,154 | \$ 14,607 |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN

Fiduciary Funds Statement of Net Assets June 30, 2008

| | Pension and Other Postemployment Benefit Trust Funds | Private Purpose Trust Special Assessment - Deferred Payback | Agency Fund Tax Collection |
|--|---|--|---|
| Assets | | | |
| Cash and pooled investments | \$ 4,114,097 | \$ 121,139 | \$ 637,689 |
| Interest receivable | 346,195 | - | - |
| Investments: | | | |
| Bonds | 6,807,629 | - | - |
| Equities | 10,777,162 | - | - |
| International | 1,012,414 | - | - |
| Special assessments receivable | - | 367,081 | - |
| Total assets | 23,057,497 | 488,220 | \$ 637,689 |
| Liabilities | | | |
| Accounts payable | 36,254 | - | \$ - |
| Benefits payable | 514,522 | - | - |
| Due to other governments | - | 9,217 | 637,689 |
| Payable to property owners | - | 468,436 | - |
| Total liabilities | 550,776 | 477,653 | \$ 637,689 |
| Net assets | | | |
| Held in trust for pension and other postemployment benefits | 22,506,721 | - | |
| Unrestricted | - | 10,567 | |
| Total net assets | \$ 22,506,721 | \$ 10,567 | |

The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD, MICHIGAN

Fiduciary Funds

Statement of Changes in Net Assets

For the Year Ended June 30, 2008

| | Pension and Other Postemployment Benefit Trust Funds | Private Purpose Trust Special Assessment - Deferred Payback |
|---------------------------------------|---|--|
| Additions | | |
| Contributions: | | |
| Employer - current year | \$ 1,012,981 | \$ - |
| Employer - accumulated in prior years | 1,352,349 | |
| Plan participants | 198,539 | - |
| Total contributions | <u>2,563,869</u> | <u>-</u> |
| Investment income | <u>1,434,258</u> | <u>-</u> |
| Total additions | <u>3,998,127</u> | <u>-</u> |
| Deductions | | |
| Distributions and benefit payments | 1,048,647 | - |
| Administrative expenses | <u>63,279</u> | <u>-</u> |
| Total deductions | <u>1,111,926</u> | <u>-</u> |
| Change in net assets | 2,886,201 | - |
| Net assets held in trust | | |
| Beginning of year | <u>19,620,520</u> | <u>10,567</u> |
| End of year | <u><u>\$ 22,506,721</u></u> | <u><u>\$ 10,567</u></u> |

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kentwood, Michigan (the “City”), was incorporated in 1967 and operates under an elected Mayor-Commission form of government. The City provides the following services: public safety (police and fire), highways and streets, sanitation, culture and recreation, public improvements, planning and zoning, water and sewer and general government services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

The Reporting Entity

The accompanying financial statements present the City (the primary government) and its component unit, an entity for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City. The City has no discretely presented component units.

Blended Component Unit

Building Authority – The Building Authority is governed by a Board that is appointed by the Kentwood City Commission. Its sole purpose is to finance and construct the City’s public buildings. It is reported in the appropriate fund category of Debt Service. A separate report is not prepared for the Building Authority.

Funds with Other Year Ends

The financial statements of the Pension Trust Defined Benefit Fund have been included in the accompanying 2008 financial statements using the fiscal year ended December 31, 2007.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are charged based upon a City-wide cost allocation plan which allocates costs based upon the number of full time equivalents, number of transactions, and other pertinent information. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of the following year, the County pays the City for any outstanding property (excluding personal property) taxes of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Special assessment revenue is recognized if collected within 12 months of year-end. Grant revenues are recorded when all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service, landfill remediation and compensated absences expenditures are recorded only when payment is due.

Property taxes, the current portion of special assessments receivable, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Police and Fire Millage Fund* accounts for funds generated by property tax collections specifically intended for police and fire protection.

The *Major Street Fund* accounts for funds specifically intended for the maintenance and construction of major streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and miscellaneous service revenues.

The *General Projects Capital Projects Fund* accounts for funds accumulated from special assessments for construction projects.

The City reports the following major proprietary funds:

The *Water Fund* accounts for funds specifically intended for the operation, maintenance and capital improvements of the water supply system and retirement of related revenue bonds. Financing is provided by user charges and contributions by other funds, municipalities and customers.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

The *Sewer Fund* accounts for funds specifically intended for the operation, maintenance and capital improvements of the sewage disposal system, and retirement of related revenue bonds. Financing is provided by user charges and contributions by other funds, municipalities and customers.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the revenue and expenditures for significant construction projects.

The *Internal Service Fund* accounts for the City's activities in the self-insured dental plan and charges costs provided to City departments on a cost-reimbursement basis.

The *Pension Trust Fund* is used to record the activities of the City's defined benefit pension plan.

The *Other Postemployment Benefits Trust Fund* is used to record the accumulation of resources for retiree health care benefits.

The *Private Purpose Trust Fund* is used to record the activity of collecting special assessments which are payable to other entities and which may revert to the City based on time limits established in various agreements.

The *Agency Fund* is used to account for assets held by the City in a trustee or agency capacity on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for water and sewer services. Operating expenses for the enterprise fund include depreciation on capital assets and payments for services, wages and supplies. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

Any residual balances outstanding between the governmental activities and business-type activity are reported in the government-wide financial statements as “internal balances.”

Accounts receivable is shown net of allowance for estimated uncollectibles. \$230,200 of the loans receivable and \$10,159,487 of special assessments receivable are not expected to be collected within one year.

Inventories and Prepaid Items

Inventories are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond a fund’s fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

Budgets and Budgetary Accounting

General Budgetary Policies – The Mayor is responsible for submitting the proposed operating budget for the following fiscal year to the City Commission. The City Commission, during its review, holds public hearings to obtain taxpayer comments. The budget is legally enacted through passage of a resolution.

Budget Transfers and Amendments – The City Commission authorizes all budgetary transfers. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission. All budget amendments are approved by the City Commission.

Budgetary Basis of Accounting – Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. The budgets are adopted on a modified accrual basis consistent with generally accepted accounting principles (GAAP).

Appropriations are authorized by resolution at the department level for the General Fund and at the fund level for Special Revenue Funds. These are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. All unexpended appropriations lapse at year-end.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not a legal requirement of the City and is not employed.

Cash and Pooled Investments

For purposes of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at anytime, similar to a demand deposit account.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Investments

Investments are stated at fair value. For fair value, securities traded on a national exchange are valued at the last reported sales price. The net investment income reported includes the change in fair value of the investments from the beginning of the year to the end of the year.

Statutes authorize the City to invest in the following:

- ◆ Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- ◆ Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- ◆ Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- ◆ Bankers acceptances of United States banks.
- ◆ Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- ◆ Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- ◆ External investment pools as authorized by Michigan Public Act 20 of 1943, as amended.

The City's defined benefit retirement plan's investments are held in trust by two local banks. Michigan compiled law authorizes the system to invest in stocks, bonds, certificates of deposits and authority of other investments. The City's other postemployment benefit plan's investments are held in trust with ICMA Retirement Corporation.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The capitalization threshold ranges from \$10,000 - \$25,000. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Infrastructure assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of governmental fund revenue, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in governmental funds.

CITY OF KENTWOOD, MICHIGAN
Notes to Financial Statements
For the Year Ended June 30, 2008

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

| | <u>Years</u> |
|--|--------------|
| Buildings, equipment, water mains, meters, storage tanks and sewer mains | 50 |
| Storage tank improvements | 15 |
| Transportation and other equipment | 4-20 |
| Public domain infrastructure | 20-45 |

Property Taxes

City summer property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 20. These summer tax bills include the City's own property taxes and taxes billed on behalf of other governmental entities. Real property taxes not collected as of March 1 are turned over to Kent County for collection. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

The City also acts as a collection agent for various governments for winter property taxes. Taxes collected on behalf of other governmental entities are paid to them periodically and are accounted for in an agency fund.

Risk Management and Benefits

The City is a member of the Michigan Municipal League Workers' Compensation Fund. Premiums from participants of the fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the fund and members against exceptionally large losses. No deductible is required for City claims.

The City is a member of the Michigan Municipal League Liability and Property Pool. Premiums from participants of the fund are arrived at through underwriting procedures administered by the Meadowbrook Insurance Group. The claims, administrative expenses and reinsurance are provided for by the premiums collected. Various deductibles are maintained to place the responsibility for small charges with the insured. Deductible examples: liability, \$5,000; blanket real and personal property including buildings, personal property and property in the open, \$5,000; and electronic data processing equipment, \$1,000.

The City has transferred the risk of loss associated with employee health care by purchasing health insurance from commercial insurance carriers. On October 1, 2006, the City established a self-funded dental plan using a third party administrator for claims processing.

Settled claims have not exceeded insurance coverage in any of the past three years. There have been no significant reductions in insurance coverage from the past year.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

| | |
|---|----------------------------|
| Escrows for recreation department purposes | \$ 61,272 |
| Litigation settlement (General Fund) | 17,654 |
| City's portion of delinquent personal property taxes receivable (General Fund) | 142,714 |
| Special assessments | <u>10,159,487</u> |
| | <u>\$10,381,127</u> |

Compensated Absences

City employees are granted vacation days in varying amounts based on length of service. Employees must use earned vacation time within 12 months from their last anniversary date with a maximum carryover of 160-218.25 hours. Upon termination, discharge, retirement or death, employees are paid for unused vacation time at the current rate. Sick leave is accumulated at the rate of from 8 to 12 hours per month of employment depending on bargaining unit. Unused accumulated sick leave, up to a maximum of from 90 to 150 days at a rate of from \$1.00 to \$1.50 per day times the years of continuous service, is paid to employees who meet specified years of service and who die, retire or terminate in good standing based on bargaining unit. These liabilities are included on the government-wide financial statements.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2008 the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

| | <u>Total Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|--|--|--|-----------------------------------|
| General Fund: | | | |
| Culture and recreation - Library | \$ 92,800 | \$ 96,050 | \$ 3,250 |
| Transfers out | 695,000 | 1,000,000 | 305,000 |
| Local Street Fund – Transfers out | 125,000 | 128,147 | 3,147 |
| Municipal Street Fund: | | | |
| Highways and streets | 55,000 | 75,884 | 20,884 |
| Capital outlay | 35,000 | 57,365 | 22,365 |
| Transfers out | 1,630,000 | 1,727,354 | 97,354 |
| Postemployment Benefits Fund – General government | 24,000 | 1,508,441 | 1,484,441 |

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

3. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fiduciary fund statements related to deposits and investments, are as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Fiduciary Funds</u> | <u>Total</u> |
|---------------------------------------|------------------------------------|-------------------------------------|----------------------------|----------------------------|
| Cash and pooled investments | \$42,360,838 | \$7,081,550 | \$ 4,872,925 | \$54,315,313 |
| Investments | - | - | 18,597,205 | 18,597,205 |
| Total deposits and investments | <u>\$42,360,838</u> | <u>\$7,081,550</u> | <u>\$23,470,130</u> | <u>\$72,912,518</u> |

Cash and investments are composed of the following at year-end:

| | |
|---------------------------------------|-----------------------------------|
| Deposits | \$ 3,268,102 |
| Petty cash | 3,700 |
| Investments | <u>69,640,716</u> |
| Total deposits and investments | <u><u>\$72,912,518</u></u> |

Deposits are in two (2) financial institutions located in Michigan.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 (summary of significant accounting policies). The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment held at year-end are summarized as follows:

| | <u>Primary Government at 06/30/2008</u> | <u>Pension Trust Fund at 12/31/2007</u> |
|------------------|---|---|
| No maturity | \$ 21,087,707 | \$ 20,966,342 |
| Less than 1 year | 4,280 | 577,328 |
| 1 to 5 years | 1,296,647 | - |
| 6 to 10 years | 999,019 | - |
| 11 to 15 years | 2,152,496 | - |
| 16 to 20 years | 4,230,459 | - |
| 21 to 25 years | 2,203,490 | - |
| 26 to 30 years | <u>16,122,949</u> | <u>-</u> |
| | <u><u>\$ 48,097,046</u></u> | <u><u>\$ 21,543,670</u></u> |

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for investments held at year end with the exception of the Defined Benefit Plan assets, which are reported as of December 31, 2007 are summarized as follows:

| | Primary Government at 06/30/2008 | Pension Trust Fund at 12/31/2007 |
|---------------------|---|---|
| Not rated | \$ - | \$ 3,316,132 |
| S&P AAA | 48,097,046 | 577,328 |
| S&P AA | - | 1,658,668 |
| Morningstar 3 stars | - | 5,600,029 |
| Morningstar 4 stars | - | 4,931,521 |
| Morningstar 5 stars | - | 5,459,992 |
| | <u>\$ 48,097,046</u> | <u>\$ 21,543,670</u> |

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the City's investment policy. As of year end, \$3,291,062 of the City's bank balance of \$3,455,936 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. Following is a summary of the City's investments as of June 30, 2008 and pension trust investments as of December 31, 2007:

| | Primary Government at 06/30/2008 | Pension Trust Fund at 12/31/2007 |
|---------------------------|---|---|
| Money market funds | \$ - | \$ 2,946,465 |
| U.S. agencies | 27,009,339 | 577,328 |
| Mutual funds | 21,087,707 | - |
| Bonds | - | 6,230,301 |
| Equity securities | - | 10,777,162 |
| International investments | - | 1,012,414 |
| | <u>\$ 48,097,046</u> | <u>\$ 21,543,670</u> |

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the City's investment policy. Of the above mutual fund investments, the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 (summary of significant accounting policies). The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported summarized with the exception of the Defined Benefit Plan assets which are reported as of December 31, 2007.

Subsequent to June 30, 2008, there has been a significant decline in fair value of certain investments due to market conditions.

4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2008 are as follows:

| Transfers out | Transfers in | | | | Totals |
|------------------------------|---------------------|-------------------|-----------------------------|---------------|----------------------|
| | General Fund | Major Streets | Nonmajor Governmental Funds | Water Fund | |
| General fund | \$ - | \$ - | \$ 1,000,000 | \$ - | \$ 1,000,000 |
| Police and fire millage fund | 9,314,673 | - | - | - | 9,314,673 |
| Nonmajor governmental funds | 16,500 | 879,973 | 1,663,269 | 317 | 2,560,059 |
| Water fund | - | - | 190,697 | - | 190,697 |
| Sewer fund | - | - | 256,948 | - | 256,948 |
| Totals | \$ 9,331,173 | \$ 879,973 | \$ 3,110,914 | \$ 317 | \$ 13,322,377 |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

5. CAPITAL ASSETS

The capital assets activities for the year are as follows:

| | Balance July 1, 2007 | Restatement | Additions | Deletions | Balance June 30, 2008 |
|---|-------------------------|---------------------|---------------------|---------------------|--------------------------|
| Governmental activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 2,275,360 | \$ - | \$ - | \$ - | \$ 2,275,360 |
| Construction in progress | 2,533,843 | 1,375,351 | 5,056,099 | 3,176,398 | 5,788,895 |
| Total capital assets not being depreciated | 4,809,203 | 1,375,351 | 5,056,099 | 3,176,398 | 8,064,255 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 1,170,236 | - | 160,000 | - | 1,330,236 |
| Buildings | 25,949,520 | - | - | - | 25,949,520 |
| Equipment | 1,784,093 | - | 1,182,378 | 146,149 | 2,820,322 |
| Vehicles | 5,535,653 | - | 157,065 | 236,858 | 5,455,860 |
| Infrastructure | 40,216,982 | - | 1,074,173 | - | 41,291,155 |
| Total capital assets being depreciated | 74,656,484 | - | 2,573,616 | 383,007 | 76,847,093 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (679,186) | - | (78,929) | - | (758,115) |
| Buildings | (5,921,405) | - | (973,534) | - | (6,894,939) |
| Equipment | (1,407,724) | - | (258,795) | (135,026) | (1,531,493) |
| Vehicles | (3,013,416) | - | (519,172) | (229,610) | (3,302,978) |
| Infrastructure | (21,548,434) | - | (1,715,148) | - | (23,263,582) |
| Total accumulated depreciation | 32,570,165 | - | (3,545,578) | (364,636) | (35,751,107) |
| Net capital assets being depreciated | 42,086,319 | - | (971,962) | 18,371 | 41,095,986 |
| Total governmental activities capital assets | \$ 46,895,522 | \$ 1,375,351 | \$ 4,084,137 | \$ 3,194,769 | \$ 49,160,241 |

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

| | <u>Balance</u> <u>July 1, 2007</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>June 30, 2008</u> |
|--|---------------------------------------|----------------------------|--------------------|--|
| Business-type activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 60,949 | \$ - | \$ - | \$ 60,949 |
| Construction in progress | - | 66,463 | - | 66,463 |
| Total capital assets not being depreciated | <u>60,949</u> | <u>66,463</u> | <u>-</u> | <u>127,412</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 260,229 | - | - | 260,229 |
| Equipment | 475,864 | 1,752,332 | - | 2,228,196 |
| Meters | 820,430 | 16,364 | - | 836,794 |
| Water mains | 6,712,533 | 203,900 | - | 6,916,433 |
| Sewer mains | 12,433,709 | - | - | 12,433,709 |
| Storage | <u>2,650,079</u> | <u>-</u> | <u>-</u> | <u>2,650,079</u> |
| Total capital assets being depreciated | <u>23,352,844</u> | <u>1,972,596</u> | <u>-</u> | <u>25,325,440</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (132,404) | (5,726) | - | (138,130) |
| Equipment | (240,953) | (17,259) | - | (258,212) |
| Meters | (431,329) | (20,039) | - | (451,368) |
| Water mains | (3,992,808) | (174,628) | - | (4,167,436) |
| Sewer mains | (9,109,527) | (248,674) | - | (9,358,201) |
| Storage | <u>(1,538,918)</u> | <u>(74,432)</u> | <u>-</u> | <u>(1,613,350)</u> |
| Total accumulated depreciation | <u>(15,445,939)</u> | <u>(540,758)</u> | <u>-</u> | <u>(15,986,697)</u> |
| Net capital assets, being depreciated | <u>7,906,905</u> | <u>1,431,838</u> | <u>-</u> | <u>9,338,743</u> |
| Net business-type activities capital assets | <u>\$ 7,967,854</u> | <u>\$ 1,498,301</u> | <u>\$ -</u> | <u>\$ 9,466,155</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|--------------------|
| Governmental activities: | |
| General government | \$ 178,272 |
| Highways and streets | 1,688,467 |
| Public safety | 1,044,477 |
| Public works | 532,691 |
| Culture and recreation | <u>101,671</u> |
| Total depreciation expense - Governmental activities | <u>\$3,545,578</u> |
| Business-type activities: | |
| Water | \$ 286,276 |
| Sewer | <u>254,482</u> |
| Total depreciation expense - Business-type activities | <u>\$ 540,758</u> |

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

6. LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the City:

| | <u>Balance July 1, 2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2008</u> | <u>Due within One Year</u> |
|---|---------------------------------|-------------------------|----------------------------|----------------------------------|--------------------------------|
| Governmental activities | | | | | |
| 2001 Building Authority Bonds, due in installments of \$540,000 to \$860,000 through 2016; interest at 3.0% to 4.7%. | \$ 6,420,000 | \$ - | \$ 590,000 | \$ 5,830,000 | \$ 615,000 |
| 2003 Capital Improvement Bonds, due in installments of \$365,000 to \$720,000 through 2024; interest at 2.0% to 4.4%. | 8,870,000 | - | 385,000 | 8,485,000 | 395,000 |
| 2005 Capital Improvement Bonds, due in installments of \$265,000 to \$420,000 through 2020; interest at 4.0% to 4.1%. | 4,455,000 | - | 285,000 | 4,170,000 | 290,000 |
| Subtotal installment debt | 19,745,000 | - | 1,260,000 | 18,485,000 | 1,300,000 |
| Compensated absences | 1,208,280 | 22,030 | - | 1,230,310 | - |
| Landfill clean-up and other costs | 1,328,534 | 1,522 | - | 1,330,056 | 100,000 |
| Total other long-term obligations | <u>\$ 22,281,814</u> | <u>\$ 23,552</u> | <u>\$ 1,260,000</u> | <u>21,045,366</u> | <u>\$ 1,400,000</u> |
| Less: current portion | | | | 1,400,000 | |
| Long-term portion | | | | <u>\$ 19,645,366</u> | |

Accrued vacation/compensated absences are generally liquidated from the general fund. Landfill clean-up and other costs are generally liquidated from the landfill remediation fund.

The annual requirements to maturity on the long-term obligations outstanding (except accrued vacation/compensated absences and landfill clean-up) as June 30, 2008 are as follows:

| <u>Year Ended</u> | <u>Governmental Activities</u> | | <u>Total Requirements</u> |
|-------------------|--------------------------------|---------------------------|-------------------------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2009 | \$ 1,300,000 | \$ 718,964 | \$ 2,018,964 |
| 2010 | 1,350,000 | 674,723 | 2,024,723 |
| 2011 | 1,405,000 | 626,659 | 2,031,659 |
| 2012 | 1,455,000 | 574,672 | 2,029,672 |
| 2013 | 1,515,000 | 518,660 | 2,033,660 |
| 2014-2018 | 6,790,000 | 1,652,449 | 8,442,449 |
| 2019-2023 | 3,950,000 | 547,014 | 4,497,014 |
| 2024 | 720,000 | 15,840 | 735,840 |
| | <u>\$18,485,000</u> | <u>\$5,328,981</u> | <u>\$23,813,981</u> |

CITY OF KENTWOOD, MICHIGAN
Notes to Financial Statements
For the Year Ended June 30, 2008

7. PENSION PLANS

Defined Benefit Plan

The City of Kentwood Employee Pension Plan (Plan) is a single employer defined benefit plan which covers some employees of the City. The Plan is administered by the City with some aspects of plan administration contracted to various specialists. All employees of the City, exclusive of those participating in the defined contribution plan, who are at least 21 years of age, working more than 1,300 hours and having at least one year of service are eligible to participate in the Plan. A separate financial report for this plan is not issued. Membership of the Plan consisted of the following at January 1, 2008, the date of the latest actuarial valuation:

| | |
|---|-------------------|
| Retirees and beneficiaries receiving benefits | 21 |
| Terminated members not yet receiving benefits | 7 |
| Active plan members | <u>74</u> |
| | <u>102</u> |

Benefits partially vest after five years of service and vest 100% after ten years of service. Normal retirement is at age 50 to 60 depending on bargaining unit. However, the participant may elect early or late retirement. Upon ten years of service, a participant is entitled to receive a benefit equal in value to a single life annuity on the participant's life with the annual retirement benefit equal to 2.5% to 2.7% of the participant's average annual compensation (highest five of last ten years compensation) multiplied by the number of years of service, not to exceed Internal Revenue Service 415 limits. The maximum retirement benefit is 75% to 80% of final average compensation. The Plan also provides death benefits as determined by the Plan document. The Plan also provides police and fire participants with duty-related disability benefits as specified by the Plan document.

Summary of Significant Accounting Policies

The financial statements of the City's defined benefit pension plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due and payable according to the terms of the Plan.

Plan investments are reported at fair value with plan administrative costs being financed by the plan.

Contributions

The City's Plan benefits and contribution requirements were established and may be amended under the authority of the City Commission and under agreements with the City's collective bargaining units representing various classes of employees.

The Plan's funding policy is that employees will contribute a fixed portion of their pay at rates specified in the Plan document, and the employer will contribute any remaining required amounts as determined by an annual actuarial valuation.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Current rates of employee contributions are 4% of compensation for police –supervisory participants, 5% of compensation for police-patrol participants, 5% for firefighter participants, and 3% for participants who are members of Kentwood General Employees Association (KGEA) and the 62-B District Court. The Plan does not permit or require other participant contributions. The Plan also calls for the City to contribute amounts sufficient to fund the Plan in accordance with minimum funding standards of the Internal Revenue Code. There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves. The annual required contribution for the City during the plan year ended December 31, 2007 was \$880,000.

| | |
|--|--------------------|
| Net pension obligation – beginning of year | \$ - |
| Annual required contribution/annual pension cost | 880,000 |
| Contribution made by the City | <u>880,000</u> |
| Net pension obligation – end of the year | <u>\$ -</u> |

Funding Status and Progress

The annual required contribution was determined as part of an actuarial valuation of the Plan as of January 1, 2008. Significant actuarial assumptions used in determining the annual required contribution include (a) rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4% per year attributable to inflation, and (c) additional cost-of-living salary increases of 3% per year.

The City's funding policy for periodic employer contributions are at actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry age normal actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level dollar over an open period of ten years. During the Plan year ended December 31, 2007, contributions totaling \$1,078,539 (\$880,000 employer and \$198,539 employee) were made.

The actuarial value of assets has been determined utilizing as smoothing technique which considers asset projected and market values.

Trend Information

| <u>Plan year ended December 31,</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---|--|--|---------------------------------------|
| 2005 | \$ 770,000 | 100% | \$ - |
| 2006 | 800,000 | 100% | - |
| 2007 | 880,000 | 100% | - |

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Defined Contribution Plan

The City of Kentwood Defined Contribution Pension Plan provides pension benefits for substantially all employees working more than 1,300 hours per year exclusive of those participating in the City's defined benefit plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Employees are eligible to participate immediately upon employment. The City contributes 7 – 12% of each participant's compensation to the Plan. The City's contributions are partially vested after two years of service and 100% vested after seven years of service. The Plan provisions and contribution amounts were established by City Commission, based on collective bargaining agreements, and may be amended by City Commission. The Plan is administered by the ICMA Retirement Corporation.

The City's total payroll for the year ending June 30, 2008 was approximately \$13,299,000. The City's contribution of approximately \$735,900 was calculated using the employee compensation amount of approximately \$8,231,000. City employees also made pre-tax mandatory contributions to the Plan totaling approximately \$306,500, which was 0 – 6% of covered payroll.

8. SELF INSURANCE

Beginning in October 2006, the City was self-insured for dental coverage on a pay-as-you-go basis. The self-insurance program is administered by a third party administrator. Dental benefits are paid out of the internal service fund. Changes in the estimated liability are as follows:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|-------------------------|-------------------------|
| Liability, beginning of year | \$ 21,300 | \$ - |
| Estimated claims incurred | 163,689 | 124,762 |
| Claim payments | <u>(148,575)</u> | <u>(103,462)</u> |
| Liability, end of year | <u>\$ 36,414</u> | <u>\$ 21,300</u> |

The above liability represents actual known payments made after year-end for claims occurring on or before year-end. No additional, estimated amount is recorded in the government-wide statement of net assets.

9. POSTEMPLOYMENT BENEFITS

Plan description. The City of Kentwood, Michigan Post-Retirement Medical Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the City of Kentwood. In addition to the retirement benefits described above, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance-funded on a discretionary basis. In accordance with the collective bargaining agreements, retirees receive an employer-paid benefit toward health insurance premiums for the retiree and spouse. The retiree benefit amount is determined by multiplying \$12.00 by the employee's years of continuous active service. Upon the death of the employee or spouse, the employer's contribution will be reduced by 25%. The employer's contributions cease when the employee becomes eligible for Medicare benefits. The Plan is included as an other postemployment benefits trust fund in the City's financial statements; a stand-alone financial report of the Plan has not been issued.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Funding policy. The contribution requirements of Plan members and the City are established and may be amended by the City's Trustees. The required contribution is based on actuarially determined financing requirements, with an additional amount to prefund benefits as determined annually by the City. For the year ended June 30, 2008, the City contributed \$132,981 to the Plan, including \$69,710 for current service cost, and an additional \$63,271 to amortize the unfunded actuarial liability. Plan members receiving benefits contributed \$0 for postemployment health coverage.

Annual OPEB Cost and Net OPEB Obligation. The City's other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarially accrued liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

| | |
|--|--------------------|
| Annual required contribution | \$ 132,981 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| | <hr/> |
| Net OPEB cost (expense) | 132,981 |
| Contributions made | (132,981) |
| | <hr/> |
| Increase in net OPEB obligation | - |
| Net OPEB obligation, beginning of year | - |
| | <hr/> |
| Net OPEB obligation, end of year | <u><u>\$ -</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 and the two preceding years were as follows:

Three-Year Trend Information – OPEB

| <u>Year</u> <u>Ending</u> | <u>Annual</u> <u>OPEB</u> <u>Cost</u> | <u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u> | <u>Net</u> <u>OPEB</u> <u>Obligation</u> |
|------------------------------|---|---|--|
| 06/30/2006 | \$ 332,244 | 100% | \$ - |
| 06/30/2007 | 320,793 | 100 | - |
| 06/30/2008 | 132,981 | 100 | - |

Funded status and funding progress. As of June 30, 2008, the date of the most recent actuarial valuation, the Plan was 99.1% funded. The actuarial accrued liability for benefits was \$1,499,026, and the actuarial value of assets was \$1,485,329, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,697. The covered payroll (annual payroll of the active employees covered by the Plan) was \$12,693,981 and the ratio of the UAAL to the covered payroll was 0.1%.

CITY OF KENTWOOD, MICHIGAN

Notes to Financial Statements For the Year Ended June 30, 2008

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumption about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include: (a) a rate of return on investments of 6.5%; (b) a discount rate of 6.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 5 years on a closed basis.

10. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Landfill

Paris Township, which later became the City of Kentwood, operated the old Kentwood Landfill from the late 1940's through 1972 at which time Kent County assumed operations until the landfill closed in May 1976. In 1980, the landfill was placed on the U.S. Environmental Protection Agency (EPA) Superfund national priority list of contamination sites. Recent studies of the landfill show that a variety of solvents, inorganic compounds and metals have contaminated groundwater. The EPA has also concluded that leachate, a hazardous liquid which seeps from refuse, might find its way into nearby Plaster Creek if corrective action is not taken.

Kent County and the EPA have negotiated a settlement to clean up the landfill over a 40-year period. On August 6, 1991, the City Commission approved an arrangement with the County whereby the City would be responsible for 20% of the total clean-up costs as a result of its prior operation of the landfill. The current present value estimate of remaining clean-up costs over the next 35 years is \$6,650,280, of which the City would be responsible for \$1,330,056. Expenditures of \$71,869 were incurred for landfill clean-up during fiscal year 2008. Under the plan developed by the EPA, contaminated groundwater and leachate would be pumped out, treated and the soil-and-clay cap, which covers the dump, would be upgraded. Fencing would also be installed around the site.

The City is to cover these costs with a 15 year millage that was approved by voters in November 1994. As of June 30, 2008, the City has accounted for the \$1,330,056 in the government-wide financial statements.

CITY OF KENTWOOD, MICHIGAN
Notes to Financial Statements
For the Year Ended June 30, 2008

11. FEDERAL FUNDING

The Michigan Department of Transportation (MDOT) received and expended \$686,300 in federal funds on behalf of the City's Major Streets Special Revenue Fund. These monies will be included in the State of Michigan's single audit. Because the City expended less than \$500,000 in directly administered federal awards, no single audit was required for the year ended June 30, 2008.

12. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have been included as other obligations in the financial statements.

13. RESTATEMENT

Beginning net assets of governmental activities and construction in progress were increased by \$1,375,351 to properly account for capital asset additions during the years 2004 through 2007 that were expensed in those periods, rather than being capitalized as the related costs were incurred.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KENTWOOD, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION SECTION
FOR THE YEAR ENDED JUNE 30, 2008

Defined Benefit Pension Plan

* The Annual Required Contribution (ARC) is the contribution required from the employer for the given year.

**The percentage of the ARC actually contributed by the employer for the given year.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest valuation date follows:

| | |
|-------------------------------|--|
| Valuation Date | January 1, 2008 |
| Actuarial cost method | Entry Age Normal, Frozen Initial Liability (normal costs are allocated as a level percentage of pay) |
| Amortization method | Level dollar, open |
| Remaining amortization period | 8 years (based on \$895,000 employer contribution in June 2008) |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Retirement age | Later of age 65 or 5 th anniversary of participation for non-uniform participants; if a participant immediately retires from employment, age 60 with 10 years of service for non-uniform participants; earlier of 55 with 10 years of service for police participants, or age 54 with 15 years of services for police-supervisory participants; or age 50 with 15 years of service for police-patrol participants; age 55 for firefighter participants. |
| Investment rate of return | 7.5% per year |
| Projected salary increases | 4% per year |
| Mortality table | RP-2000 Mortality Table with Projection Scale AA (sex distinct) |
| Turnover rates | Crocker-Sarason-Straight T-1 |
| Disability table | 100% 1964 Old Age, Survivor and Disability Insurance |
| Marriage assumption | 90% of all active participants are assumed to be married |
| Cost-of-living adjustments: | |
| Basic benefits | None |
| Maximum salary increases | 3% per year |
| Maximum benefit increases | 3% per year |

CITY OF KENTWOOD, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION SECTION
(CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2008

Defined Benefit Pension Plan

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Funding Progress

| Actuarial valuation date | (a) Market value of assets | (b) Actuarial accrued liability (AAL) | (c) Unfunded AAL (UAAL) (b) – (a) | (d) Funded ratio ((a)/(b)) | (e) Covered Payroll | (f) UAAL as a percentage of covered payroll ((c)/(e)) |
|---|---|--|--|---|------------------------------------|--|
| 1/1/1999 | \$10,430,308 | \$15,326,356 | \$4,896,048 | 68.1% | \$6,462,913 | 75.8% |
| 1/1/2000 | 12,421,649 | 17,283,537 | 4,861,888 | 71.9% | 7,109,449 | 68.4% |
| 1/1/2001 | 11,006,422 | 14,174,019 | 3,167,597 | 77.7% | 5,616,123 | 56.4% |
| 1/1/2002 | 11,480,298 | 14,610,616 | 3,130,318 | 78.6% | 4,845,396 | 64.6% |
| 1/1/2003 | 10,684,908 | 13,973,826 | 3,288,918 | 76.5% | 5,119,257 | 64.2% |
| 1/1/2004 | 13,592,995 | 16,754,125 | 3,161,130 | 81.1% | 5,163,925 | 61.2% |
| 1/1/2005 | 15,702,758 | 18,606,907 | 2,904,149 | 84.4% | 5,347,504 | 54.3% |
| 1/1/2006 | 17,380,075 | 20,916,988 | 3,536,913 | 83.1% | 5,261,799 | 67.2% |
| 1/1/2007 | 19,655,594 | 23,791,747 | 4,136,153 | 82.6% | 5,061,348 | 81.7% |
| 1/1/2008 | 21,057,646 | 25,141,606 | 4,083,960 | 83.7% | 5,090,347 | 80.2% |

Schedule of Contributions

| Plan year Ended December 31 | Annual Required Contribution * | Contribution from Employees | Contribution from Employer | Total Amount Contributed | Employer Percentage Contributed ** |
|--|---|--|---|---|---|
| 1998 | \$ 860,000 | \$ 207,153 | \$ 860,000 | \$ 1,067,153 | 100.00% |
| 1999 | 950,000 | 227,384 | 950,000 | 1,177,384 | 100.00% |
| 2000 | 1,050,000 | 231,951 | 1,050,000 | 1,281,951 | 100.00% |
| 2001 | 765,000 | 202,710 | 765,000 | 967,710 | 100.00% |
| 2002 | 710,000 | 194,221 | 710,000 | 904,221 | 100.00% |
| 2003 | 850,000 | 199,289 | 850,000 | 1,049,289 | 100.00% |
| 2004 | 870,000 | 202,448 | 870,000 | 1,072,448 | 100.00% |
| 2005 | 770,000 | 210,135 | 770,000 | 980,135 | 100.00% |
| 2006 | 800,000 | 203,374 | 800,000 | 1,003,374 | 100.00% |
| 2007 | 880,000 | 198,539 | 880,000 | 1,078,539 | 100.00% |

CITY OF KENTWOOD, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION SECTION
(CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2008

Other Postemployment Benefits Plan

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Funding Progress

| Actuarial valuation date | (a) Market value of assets | (b) Actuarial accrued liability (AAL) | (c) Unfunded AAL (UAAL) (b) – (a) | (d) Funded ratio ((a)/(b)) | (e) Covered Payroll | (f) UAAL as a percentage of covered payroll ((c)/(e)) |
|---|---|--|--|---|------------------------------------|--|
| 06/30/2006 | \$ 927,258 | \$ 1,569,340 | \$ 642,082 | 59.1% | \$12,458,060 | 5.2% |
| 06/30/2007 | 1,283,439 | 1,639,119 | 355,680 | 78.3% | 12,338,199 | 2.9% |
| 06/30/2008 | 1,485,329 | 1,499,026 | 13,697 | 99.1% | 12,693,981 | 0.1% |

Schedule of Contributions

| Plan year Ended June 30 | Annual Required Contribution * | Contribution from Employees | Contribution from Employer | Total Amount Contributed | Employer Percentage Contributed ** |
|--|---|--|---|---|---|
| 2003 | \$ 193,050 | \$ - | \$ 193,050 | \$ 193,050 | 100.00% |
| 2004 | 155,399 | - | 155,399 | 155,399 | 100.00% |
| 2005 | 276,207 | - | 276,207 | 276,207 | 100.00% |
| 2006 | 332,244 | - | 332,244 | 332,244 | 100.00% |
| 2007 | 320,793 | - | 320,793 | 320,793 | 100.00% |
| 2008 | 132,981 | - | 132,981 | 132,981 | 100.00% |

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS
AND SCHEDULES**

GENERAL FUND

CITY OF KENTWOOD, MICHIGAN
Detail Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|---|----------------------------|-------------------------|--------------------------|---|
| Revenue | | | | |
| Taxes | \$ 6,241,300 | \$ 6,241,300 | \$ 6,026,995 | \$ (214,305) |
| Licenses and permits | | | | |
| Permits and inspection fees | 685,500 | 685,500 | 669,351 | (16,149) |
| Local licenses | 516,800 | 516,800 | 572,259 | 55,459 |
| State liquor licenses | 20,000 | 20,000 | 20,198 | 198 |
| Total licenses and permits | 1,222,300 | 1,222,300 | 1,261,808 | 39,508 |
| Intergovernmental | | | | |
| Local grants | 10,000 | 10,000 | 18,914 | 8,914 |
| State shared revenue | 3,352,100 | 3,352,100 | 3,354,831 | 2,731 |
| State grants | 113,000 | 113,000 | 173,013 | 60,013 |
| Federal grants | 40,000 | 40,000 | 50,011 | 10,011 |
| Total intergovernmental | 3,515,100 | 3,515,100 | 3,596,769 | 81,669 |
| Charges for services | | | | |
| Tax collection fees | 915,000 | 915,000 | 924,690 | 9,690 |
| Public works services | 1,529,300 | 1,529,300 | 1,197,328 | (331,972) |
| Recreation fees | 378,900 | 378,900 | 312,196 | (66,704) |
| Internal charges administration | 494,100 | 494,100 | 499,300 | 5,200 |
| Water department - accounting and administrative charges | 31,000 | 31,000 | 31,000 | - |
| Engineering | 279,200 | 279,200 | 273,600 | (5,600) |
| Police, fire and library fees | 170,000 | 170,000 | 236,564 | 66,564 |
| Cemetery | 40,000 | 40,000 | 37,554 | (2,446) |
| Zoning fees | 33,500 | 33,500 | 34,483 | 983 |
| Passport fees | 20,000 | 20,000 | 43,248 | 23,248 |
| Judge's salary subsidy | 45,700 | 45,700 | 45,724 | 24 |
| Total charges for services | 3,936,700 | 3,936,700 | 3,635,687 | (301,013) |
| Fines and forfeits | | | | |
| Court fines | 1,200,000 | 1,200,000 | 1,163,460 | (36,540) |
| Delinquent tax - interest penalties | 180,000 | 180,000 | 103,528 | (76,472) |
| Total fines and forfeits | 1,380,000 | 1,380,000 | 1,266,988 | (113,012) |
| Investment income | 300,000 | 300,000 | 487,117 | 187,117 |
| Miscellaneous | | | | |
| Insurance premium refunds | 30,000 | 30,000 | 29,853 | (147) |
| Rental income | 35,000 | 35,000 | 46,644 | 11,644 |
| Miscellaneous | 36,000 | 36,000 | 80,827 | 44,827 |
| Total miscellaneous | 101,000 | 101,000 | 157,324 | 56,324 |
| Total revenue | 16,696,400 | 16,696,400 | 16,432,688 | (263,712) |

continued....

CITY OF KENTWOOD, MICHIGAN
Detail Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund (Continued)
For the Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|----------------------------|----------------------------|-------------------------|--------------------------|---|
| Expenditures | | | | |
| General government | | | | |
| Administrative: | | | | |
| Auditing | \$ 25,500 | \$ 25,500 | \$ 22,500 | \$ (3,000) |
| Cable TV related costs | 167,100 | 167,100 | 184,638 | 17,538 |
| City commission | 39,500 | 39,500 | 38,856 | (644) |
| Community activities | 3,500 | 3,500 | 3,214 | (286) |
| Dues, fees and memberships | 32,500 | 32,500 | 28,459 | (4,041) |
| Employee benefits | 87,400 | 87,400 | 93,452 | 6,052 |
| Insurance | 111,700 | 111,700 | 121,773 | 10,073 |
| Legal fees | 250,000 | 250,000 | 174,750 | (75,250) |
| Repairs and maintenance | 7,000 | 7,000 | 7,743 | 743 |
| Office equipment | 31,100 | 31,100 | 27,523 | (3,577) |
| Office supplies | 10,000 | 10,000 | 8,519 | (1,481) |
| Contractual services | 86,300 | 86,300 | 86,227 | (73) |
| Pension administration | 9,000 | 9,000 | 14,368 | 5,368 |
| Postage | 55,000 | 55,000 | 51,981 | (3,019) |
| Printing and publishing | 85,800 | 85,800 | 24,360 | (61,440) |
| Utilities | 126,000 | 126,000 | 117,446 | (8,554) |
| Supplies | 17,500 | 17,500 | 15,052 | (2,448) |
| Rent | 869,000 | 869,000 | 868,905 | (95) |
| Miscellaneous | 12,300 | 12,300 | 22,494 | 10,194 |
| Total administrative | 2,026,200 | 2,026,200 | 1,912,260 | (113,940) |
| Assessments: | | | | |
| Contractual services | 79,300 | 79,300 | 8,888 | (70,412) |
| Telephone | 1,500 | 1,500 | 1,649 | 149 |
| Dues, fees and memberships | 1,700 | 1,700 | 1,522 | (178) |
| Training | 6,100 | 6,100 | 5,819 | (281) |
| Employee benefits | 102,500 | 102,500 | 89,748 | (12,752) |
| Repairs and maintenance | 6,000 | 6,000 | 5,335 | (665) |
| Salaries | 287,300 | 287,300 | 274,486 | (12,814) |
| Supplies | 4,700 | 4,700 | 1,746 | (2,954) |
| Travel | 2,000 | 2,000 | 1,932 | (68) |
| Total assessments | 491,100 | 491,100 | 391,125 | (99,975) |
| Treasurer: | | | | |
| Dues, fees and memberships | 600 | 600 | 362 | (238) |
| Training | 3,100 | 3,100 | 3,138 | 38 |
| Employee benefits | 65,400 | 65,400 | 58,681 | (6,719) |
| Insurance | 1,600 | 1,600 | 1,787 | 187 |
| Repairs and maintenance | 100 | 100 | - | (100) |
| Salaries | 153,500 | 153,500 | 143,898 | (9,602) |
| Supplies | 21,000 | 21,000 | 18,944 | (2,056) |
| Contractual services | 4,200 | 4,200 | 4,175 | (25) |
| Travel | 300 | 300 | 526 | 226 |
| Total treasurer | 249,800 | 249,800 | 231,511 | (18,289) |

continued...

CITY OF KENTWOOD, MICHIGAN
Detail Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund (Continued)
For the Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|---------------------------------------|----------------------------|-------------------------|--------------------------|---|
| Expenditures (continued) | | | | |
| General government (continued) | | | | |
| Information technology: | | | | |
| Dues, fees and memberships | \$ 800 | \$ 800 | \$ 458 | \$ (342) |
| Training | 8,500 | 8,500 | 3,262 | (5,238) |
| Employee benefits | 67,900 | 67,900 | 61,370 | (6,530) |
| Repairs and maintenance | 38,000 | 38,000 | 40,773 | 2,773 |
| Contractual services | 49,500 | 49,500 | 26,112 | (23,388) |
| Salaries | 182,400 | 182,400 | 180,343 | (2,057) |
| Supplies | 4,500 | 4,500 | 2,863 | (1,637) |
| Travel | 1,700 | 1,700 | 1,626 | (74) |
| Utilities | 6,700 | 6,700 | 4,457 | (2,243) |
| | <u>360,000</u> | <u>360,000</u> | <u>321,264</u> | <u>(38,736)</u> |
| Total information technology | | | | |
| City clerk: | | | | |
| Capital outlay | 1,700 | 1,700 | 1,700 | - |
| Dues, fees and memberships | 200 | 200 | 645 | 445 |
| Training | 1,000 | 1,000 | 815 | (185) |
| Employee benefits | 43,800 | 43,800 | 42,687 | (1,113) |
| Insurance | 200 | 200 | 193 | (7) |
| Contractual services | 6,000 | 6,000 | 2,904 | (3,096) |
| Salaries | 153,900 | 153,900 | 145,868 | (8,032) |
| Supplies | 3,000 | 3,000 | 2,829 | (171) |
| Travel | 500 | 500 | 443 | (57) |
| | <u>210,300</u> | <u>210,300</u> | <u>198,084</u> | <u>(12,216)</u> |
| Total city clerk | | | | |
| Human resources: | | | | |
| Dues, fees and memberships | 300 | 300 | 610 | 310 |
| Training | 2,500 | 2,500 | 2,257 | (243) |
| Employee benefits | 32,000 | 32,000 | 29,524 | (2,476) |
| Contractual services | 500 | 8,500 | 8,162 | (338) |
| Salaries | 101,800 | 101,800 | 98,979 | (2,821) |
| Supplies | 1,300 | 1,300 | 846 | (454) |
| Travel | 200 | 200 | 214 | 14 |
| | <u>138,600</u> | <u>146,600</u> | <u>140,592</u> | <u>(6,008)</u> |
| Total human resources | | | | |
| Accounting: | | | | |
| Dues, fees and memberships | 1,400 | 1,400 | 1,425 | 25 |
| Training | 2,000 | 2,000 | 1,638 | (362) |
| Employee benefits | 122,300 | 122,300 | 106,904 | (15,396) |
| Repairs and maintenance | 26,200 | 26,200 | - | (26,200) |
| Contractual services | 2,500 | 2,500 | 629 | (1,871) |
| Salaries | 353,800 | 353,800 | 355,694 | 1,894 |
| Supplies | 7,000 | 7,000 | 3,098 | (3,902) |
| Utilities | 600 | 600 | 254 | (346) |
| Travel | 2,000 | 2,000 | 1,403 | (597) |
| | <u>517,800</u> | <u>517,800</u> | <u>471,045</u> | <u>(46,755)</u> |
| Total accounting | | | | |

continued....

CITY OF KENTWOOD, MICHIGAN
Detail Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund (Continued)
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|----------------------------|-------------------------|--------------------------|---|
| Expenditures (continued) | | | | |
| General government (continued) | | | | |
| Executive: | | | | |
| Capital outlay | \$ 1,000 | \$ 1,000 | \$ 100 | \$ (900) |
| Training | 3,500 | 3,500 | 3,278 | (222) |
| Dues, fees and memberships | 1,200 | 1,200 | 1,262 | 62 |
| Employee benefits | 61,000 | 61,000 | 57,290 | (3,710) |
| Printing and publishing | 18,000 | 18,000 | 12,545 | (5,455) |
| Salaries | 181,600 | 181,600 | 180,851 | (749) |
| Supplies | 3,000 | 3,000 | 2,062 | (938) |
| Utilities | 800 | 800 | 790 | (10) |
| Travel | 2,500 | 2,500 | 3,224 | 724 |
| | <u>272,600</u> | <u>272,600</u> | <u>261,402</u> | <u>(11,198)</u> |
| Total executive | | | | |
| Planning and zoning: | | | | |
| Training | 3,200 | 3,200 | 3,115 | (85) |
| Dues, fees and memberships | 3,500 | 3,500 | 3,119 | (381) |
| Employee benefits | 138,000 | 138,000 | 122,739 | (15,261) |
| Internal charges | - | - | 736 | 736 |
| Repairs and maintenance | 200 | 200 | (92) | (292) |
| Contractual services | 4,300 | 4,300 | 1,462 | (2,838) |
| Salaries | 360,000 | 360,000 | 336,633 | (23,367) |
| Supplies | 2,700 | 2,700 | 2,759 | 59 |
| Travel | 4,200 | 4,200 | 3,361 | (839) |
| | <u>516,100</u> | <u>516,100</u> | <u>473,832</u> | <u>(42,268)</u> |
| Total planning and zoning | | | | |
| Elections: | | | | |
| Employee benefits | 300 | 300 | 200 | (100) |
| Internal charges | 2,900 | 2,900 | 3,187 | 287 |
| Repairs and maintenance | 300 | 300 | - | (300) |
| Contractual services | 25,700 | 28,000 | 27,735 | (265) |
| Salaries | 1,900 | 1,900 | 1,900 | - |
| Supplies | 3,300 | 7,500 | 5,732 | (1,768) |
| Travel | 1,300 | 1,300 | 1,028 | (272) |
| | <u>35,700</u> | <u>42,200</u> | <u>39,782</u> | <u>(2,418)</u> |
| Total elections | | | | |
| Total general government | <u>4,818,200</u> | <u>4,832,700</u> | <u>4,440,897</u> | <u>(391,803)</u> |

continued...

CITY OF KENTWOOD, MICHIGAN
Detail Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund (Continued)
For the Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|---------------------------------|----------------------------|-------------------------|--------------------------|---|
| Expenditures (continued) | | | | |
| Public safety | | | | |
| Police: | | | | |
| Capital outlay | \$ 32,300 | \$ 32,300 | \$ 64,786 | \$ 32,486 |
| Contractual services | 302,000 | 302,000 | 289,327 | (12,673) |
| Dues, fees and memberships | 9,100 | 9,100 | 4,838 | (4,262) |
| Employee benefits | 2,447,800 | 2,447,800 | 2,371,016 | (76,784) |
| Travel | 414,400 | 414,400 | 437,111 | 22,711 |
| Legal fees | 200,000 | 200,000 | 216,809 | 16,809 |
| Insurance | 99,600 | 99,600 | 85,729 | (13,871) |
| Repairs and maintenance | 61,000 | 61,000 | 65,323 | 4,323 |
| Salaries | 5,639,700 | 5,639,700 | 5,380,712 | (258,988) |
| Supplies | 152,000 | 152,000 | 101,552 | (50,448) |
| Utilities | 168,000 | 168,000 | 176,035 | 8,035 |
| Training | 76,300 | 76,300 | 41,678 | (34,622) |
| | <u>9,602,200</u> | <u>9,602,200</u> | <u>9,234,916</u> | <u>(367,284)</u> |
| | | | | |
| Fire: | | | | |
| Capital outlay | 25,200 | 25,200 | 25,853 | 653 |
| Contractual services | 128,000 | 128,000 | 113,841 | (14,159) |
| Dues, fees and memberships | 3,800 | 3,800 | 3,400 | (400) |
| Training | 23,800 | 23,800 | 15,484 | (8,316) |
| Employee benefits | 1,391,600 | 1,391,600 | 1,270,016 | (121,584) |
| Travel | 151,500 | 151,500 | 154,059 | 2,559 |
| Insurance | 44,200 | 44,200 | 41,388 | (2,812) |
| Repairs and maintenance | 39,800 | 39,800 | 30,608 | (9,192) |
| Salaries | 3,232,900 | 3,232,900 | 3,253,400 | 20,500 |
| Supplies | 114,500 | 114,500 | 105,136 | (9,364) |
| Utilities | 116,600 | 116,600 | 103,454 | (13,146) |
| | <u>5,271,900</u> | <u>5,271,900</u> | <u>5,116,639</u> | <u>(155,261)</u> |
| | | | | |
| Total public safety | <u>14,874,100</u> | <u>14,874,100</u> | <u>14,351,555</u> | <u>(522,545)</u> |
| | | | | |
| Engineering services | | | | |
| Training | 2,500 | 2,500 | 754 | (1,746) |
| Dues, fees and memberships | 1,400 | 1,400 | 987 | (413) |
| Employee benefits | 120,100 | 120,100 | 111,039 | (9,061) |
| Contractual services | 5,000 | 5,000 | 458 | (4,542) |
| Repairs and maintenance | 2,000 | 2,000 | 2,616 | 616 |
| Insurance | - | - | 1,080 | 1,080 |
| Salaries | 362,200 | 362,200 | 354,865 | (7,335) |
| Supplies | 11,400 | 11,400 | 5,165 | (6,235) |
| Travel | 5,100 | 5,100 | 2,796 | (2,304) |
| | <u>509,700</u> | <u>509,700</u> | <u>479,760</u> | <u>(29,940)</u> |

continued....

CITY OF KENTWOOD, MICHIGAN
Detail Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund (Continued)
For the Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|---------------------------------|----------------------------|-------------------------|--------------------------|---|
| Expenditures (continued) | | | | |
| Public works | | | | |
| Training | \$ 7,000 | \$ 7,000 | \$ 4,799 | \$ (2,201) |
| Dues, fees and memberships | 1,000 | 1,000 | 129 | (871) |
| Employee benefits | 698,000 | 698,000 | 645,090 | (52,910) |
| Insurance | 24,700 | 24,700 | 16,069 | (8,631) |
| Repairs and maintenance | 42,800 | 42,800 | 18,367 | (24,433) |
| Contractual services | 107,000 | 107,000 | 46,021 | (60,979) |
| Salaries | 1,485,800 | 1,485,800 | 1,508,921 | 23,121 |
| Supplies | 125,100 | 125,100 | 128,385 | 3,285 |
| Travel | 145,000 | 145,000 | 167,939 | 22,939 |
| Utilities | 116,500 | 116,500 | 78,386 | (38,114) |
| Miscellaneous | 3,000 | 3,000 | - | (3,000) |
| Total public works | 2,755,900 | 2,755,900 | 2,614,106 | (141,794) |
| District court | | | | |
| Legal Fees | 45,000 | 45,000 | 55,222 | 10,222 |
| Training | 4,300 | 4,300 | 2,913 | (1,387) |
| Dues, fees and memberships | 1,800 | 1,800 | 1,863 | 63 |
| Employee benefits | 289,700 | 289,700 | 260,154 | (29,546) |
| Insurance | 2,500 | 2,500 | 2,602 | 102 |
| Repairs and maintenance | 64,500 | 64,500 | 59,887 | (4,613) |
| Contractual services | 187,700 | 187,700 | 173,341 | (14,359) |
| Salaries | 717,600 | 717,600 | 719,430 | 1,830 |
| Supplies | 26,000 | 26,000 | 26,067 | 67 |
| Travel | 1,000 | 1,000 | 458 | (542) |
| Total district court | 1,340,100 | 1,340,100 | 1,316,607 | (23,493) |
| Inspections | | | | |
| Dues, fees and memberships | 800 | 800 | 613 | (187) |
| Training | 7,600 | 7,600 | 4,231 | (3,369) |
| Employee benefits | 131,300 | 131,300 | 114,876 | (16,424) |
| Insurance | 5,300 | 5,300 | 3,246 | (2,054) |
| Repairs and maintenance | 3,200 | 3,200 | 1,630 | (1,570) |
| Contractual services | - | - | 200 | 200 |
| Salaries | 360,300 | 360,300 | 334,710 | (25,590) |
| Supplies | 11,500 | 11,500 | 8,388 | (3,112) |
| Utilities | 2,700 | 2,700 | 1,405 | (1,295) |
| Travel | 12,400 | 12,400 | 12,638 | 238 |
| Total inspections | 535,100 | 535,100 | 481,937 | (53,163) |

continued....

CITY OF KENTWOOD, MICHIGAN
Detail Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund (Concluded)
For the Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|---------------------------------------|----------------------------|-------------------------|--------------------------|---|
| Expenditures (continued) | | | | |
| Culture and recreation | | | | |
| Recreation: | | | | |
| Capital outlay | \$ 6,000 | \$ 6,000 | \$ 24,358 | \$ 18,358 |
| Training | 3,000 | 3,000 | 4,126 | 1,126 |
| Dues, fees and memberships | 800 | 800 | 1,533 | 733 |
| Employee benefits | 161,100 | 161,100 | 145,883 | (15,217) |
| Contractual services | 82,500 | 82,500 | 88,424 | 5,924 |
| Insurance | 3,800 | 3,800 | 3,506 | (294) |
| Repairs and maintenance | 800 | 800 | 5,193 | 4,393 |
| Salaries | 472,300 | 472,300 | 452,066 | (20,234) |
| Internal charges | 71,400 | 71,400 | 87,596 | 16,196 |
| Supplies | 152,000 | 152,000 | 128,716 | (23,284) |
| Travel | 6,200 | 6,200 | 7,970 | 1,770 |
| Utilities | 19,000 | 19,000 | 23,477 | 4,477 |
| Total recreation | 978,900 | 978,900 | 972,848 | (6,052) |
| Library: | | | | |
| Insurance | 1,400 | 1,400 | 1,134 | (266) |
| Repairs and maintenance | 5,000 | 5,000 | 81 | (4,919) |
| Contractual services | 300 | 300 | 240 | (60) |
| Internal charges | 48,300 | 48,300 | 53,481 | 5,181 |
| Supplies | 7,000 | 7,000 | 8,579 | 1,579 |
| Utilities | 30,800 | 30,800 | 32,535 | 1,735 |
| Total library | 92,800 | 92,800 | 96,050 | 3,250 |
| Total culture and recreation | 1,071,700 | 1,071,700 | 1,068,898 | (2,802) |
| Total expenditures | 25,904,800 | 25,919,300 | 24,753,760 | (1,165,540) |
| Revenue (under) over expenditures | (9,208,400) | (9,222,900) | (8,321,072) | 901,828 |
| Other financing sources (uses) | | | | |
| Proceeds from sale of capital assets | 1,000 | 1,000 | 86 | (914) |
| Transfers in | 9,905,700 | 9,955,700 | 9,331,173 | (624,527) |
| Transfers out | (695,000) | (695,000) | (1,000,000) | (305,000) |
| Total other financing sources (uses) | 9,211,700 | 9,261,700 | 8,331,259 | (930,441) |
| Net change in fund balances | 3,300 | 38,800 | 10,187 | (28,613) |
| Fund balance, beginning of year | 5,062,011 | 5,062,011 | 5,062,011 | - |
| Fund balance, end of year | \$ 5,065,311 | \$ 5,100,811 | \$ 5,072,198 | \$ (28,613) |

NONMAJOR GOVERNMENTAL FUNDS

CITY OF KENTWOOD, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

| | Special Revenue Funds | | | | |
|--|------------------------------|---------------------------|---------------------------------|-------------------------------|---------------------|
| | DPW Equipment | Fire Equipment | Economic Development | Housing Commission | Parks |
| Assets | | | | | |
| Cash and pooled investments | \$ 1,560,316 | \$ 1,259,416 | \$ 743,164 | \$ 173,713 | \$ 1,134,774 |
| Accounts receivable | - | - | - | - | - |
| Special assessments receivable | - | - | - | - | - |
| Loans receivable | - | - | 198,368 | 46,833 | - |
| Prepaid items | - | - | - | - | - |
| Due from other governments | - | - | - | - | - |
| Total assets | \$ 1,560,316 | \$ 1,259,416 | \$ 941,532 | \$ 220,546 | \$ 1,134,774 |
| Liabilities and fund balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 4,781 | \$ - | \$ 1,740 | \$ - | \$ 46,207 |
| Due to other governments | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - |
| Total liabilities | 4,781 | - | 1,740 | - | 46,207 |
| Fund balances | | | | | |
| Reserved for: | | | | | |
| Loans receivable - noncurrent portion | - | - | 186,500 | 43,700 | - |
| Prepaid items | - | - | - | - | - |
| Unreserved: | | | | | |
| Designated for parks and recreation | - | - | - | - | - |
| Undesignated | 1,555,535 | 1,259,416 | 753,292 | 176,846 | 1,088,567 |
| Total fund balances | 1,555,535 | 1,259,416 | 939,792 | 220,546 | 1,088,567 |
| Total liabilities and fund balances | \$ 1,560,316 | \$ 1,259,416 | \$ 941,532 | \$ 220,546 | \$ 1,134,774 |

Special Revenue Funds

| Street Lighting | Landfill Remediation | Drain | Local Street | Municipal Street | Post- employment Benefits | Property and Building |
|---------------------|-------------------------|---------------------|---------------------|---------------------|---------------------------------|-----------------------------|
| \$ 2,264,425 | \$ 1,658,132 | \$ 4,991,162 | \$ 1,949,890 | \$ 5,226,766 | \$ 4,867 | \$ 4,466,885 |
| - | - | 3,925 | - | - | - | - |
| - | - | 306,608 | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 627 | 2,587 | - | - | - |
| - | - | - | 109,521 | - | - | 6,826 |
| <u>\$ 2,264,425</u> | <u>\$ 1,658,132</u> | <u>\$ 5,302,322</u> | <u>\$ 2,061,998</u> | <u>\$ 5,226,766</u> | <u>\$ 4,867</u> | <u>\$ 4,473,711</u> |
| | | | | | | |
| \$ 42,629 | \$ 33,765 | \$ 4,756 | \$ 54,870 | \$ 22,396 | \$ 4,867 | \$ 133,035 |
| - | - | 3,071 | - | - | - | - |
| - | - | 303,212 | - | - | - | - |
| <u>42,629</u> | <u>33,765</u> | <u>311,039</u> | <u>54,870</u> | <u>22,396</u> | <u>4,867</u> | <u>133,035</u> |
| | | | | | | |
| - | - | - | - | - | - | - |
| - | - | 627 | 2,587 | - | - | - |
| - | - | - | - | - | - | 445,160 |
| <u>2,221,796</u> | <u>1,624,367</u> | <u>4,990,656</u> | <u>2,004,541</u> | <u>5,204,370</u> | <u>-</u> | <u>3,895,516</u> |
| <u>2,221,796</u> | <u>1,624,367</u> | <u>4,991,283</u> | <u>2,007,128</u> | <u>5,204,370</u> | <u>-</u> | <u>4,340,676</u> |
| <u>\$ 2,264,425</u> | <u>\$ 1,658,132</u> | <u>\$ 5,302,322</u> | <u>\$ 2,061,998</u> | <u>\$ 5,226,766</u> | <u>\$ 4,867</u> | <u>\$ 4,473,711</u> |

CITY OF KENTWOOD, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2008

| | Debt Service Fund | Capital Projects Fund | Total Nonmajor Governmental Funds |
|--|----------------------------------|--------------------------------------|--|
| | Fund | Construction Fund | |
| Assets | | | |
| Cash and pooled investments | \$ - | \$ 1,647,679 | \$ 27,081,189 |
| Accounts receivable | - | - | 3,925 |
| Special assessments receivable | - | - | 306,608 |
| Loans receivable | - | - | 245,201 |
| Prepaid items | - | - | 3,214 |
| Due from other governments | - | - | 116,347 |
| | <hr/> | <hr/> | <hr/> |
| Total assets | <u>\$ -</u> | <u>\$ 1,647,679</u> | <u>\$ 27,756,484</u> |
| | | | |
| Liabilities and fund balances | | | |
| | | | |
| Liabilities | | | |
| Accounts payable | \$ - | \$ 881,247 | \$ 1,230,293 |
| Due to other governments | - | - | 3,071 |
| Deferred revenue | - | - | 303,212 |
| | <hr/> | <hr/> | <hr/> |
| Total liabilities | <hr/> - | <hr/> 881,247 | <hr/> 1,536,576 |
| | | | |
| Fund balances | | | |
| Reserved for: | | | |
| Loans receivable - noncurrent portion | - | - | 230,200 |
| Prepaid items | - | - | 3,214 |
| Unreserved: | | | |
| Designated for parks and recreation | - | - | 445,160 |
| Undesignated | - | 766,432 | 25,541,334 |
| | <hr/> | <hr/> | <hr/> |
| Total fund balances | <hr/> - | <hr/> 766,432 | <hr/> 26,219,908 |
| | | | |
| Total liabilities and fund balances | <u>\$ -</u> | <u>\$ 1,647,679</u> | <u>\$ 27,756,484</u> |

CITY OF KENTWOOD, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

| | Special Revenue Funds | | | | |
|---------------------------------------|------------------------------|---------------------------|---------------------------------|-------------------------------|---------------------|
| | DPW Equipment | Fire Equipment | Economic Development | Housing Commission | Parks |
| Revenue | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ 200,757 |
| Special assessments | - | - | - | - | - |
| Intergovernmental | - | - | - | - | 85,243 |
| Licenses and permits | - | - | 17,929 | - | - |
| Charges for services | 200,000 | - | - | - | - |
| Investment income | 145,508 | 85,922 | 62,174 | 12,791 | 81,459 |
| Miscellaneous | - | - | - | - | 60,000 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>60,000</u> |
| Total revenue | <u>345,508</u> | <u>85,922</u> | <u>80,103</u> | <u>12,791</u> | <u>427,459</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | - | - | 54,688 | 9,783 | - |
| Public safety | - | 15,000 | - | - | - |
| Highways and streets | - | - | - | - | - |
| Public works | 20,000 | - | - | - | - |
| Culture and recreation | - | - | - | - | 18,700 |
| Debt service: | | | | | |
| Principal | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Capital outlay | <u>605,785</u> | <u>64,613</u> | <u>-</u> | <u>-</u> | <u>355,796</u> |
| Total expenditures | <u>625,785</u> | <u>79,613</u> | <u>54,688</u> | <u>9,783</u> | <u>374,496</u> |
| Revenue (under) over expenditures | <u>(280,277)</u> | <u>6,309</u> | <u>25,415</u> | <u>3,008</u> | <u>52,963</u> |
| Other financing sources (uses) | | | | | |
| Sale of capital assets | 94,709 | 2,120 | - | - | - |
| Transfers in | - | 50,000 | - | - | - |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | <u>94,709</u> | <u>52,120</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (185,568) | 58,429 | 25,415 | 3,008 | 52,963 |
| Fund balances, beginning of year | <u>1,741,103</u> | <u>1,200,987</u> | <u>914,377</u> | <u>217,538</u> | <u>1,035,604</u> |
| Fund balances, end of year | <u>\$ 1,555,535</u> | <u>\$ 1,259,416</u> | <u>\$ 939,792</u> | <u>\$ 220,546</u> | <u>\$ 1,088,567</u> |

| Special Revenue Funds | | | | | | |
|----------------------------|---------------------------------|--------------------|-------------------------|-----------------------------|--|--------------------------------------|
| <u>Street Lighting</u> | <u>Landfill Remediation</u> | <u>Drain</u> | <u>Local Street</u> | <u>Municipal Street</u> | <u>Post- employment Benefits</u> | <u>Property and Building</u> |
| \$ - | \$ 301,136 | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 4,686 | - | - | - | - |
| - | - | - | 668,371 | - | - | 22,426 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 132,981 | - |
| 167,995 | 117,061 | 378,564 | 88,789 | 489,464 | 92,020 | 261,378 |
| - | - | - | 143,263 | - | - | 21,466 |
| <u>167,995</u> | <u>418,197</u> | <u>383,250</u> | <u>900,423</u> | <u>489,464</u> | <u>225,001</u> | <u>305,270</u> |
| - | - | - | - | - | 1,508,441 | - |
| - | - | - | - | - | - | - |
| 445,622 | - | - | 904,185 | 75,884 | - | - |
| - | 99,969 | 617,459 | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | 167,740 | 57,365 | - | 1,075,747 |
| <u>445,622</u> | <u>99,969</u> | <u>617,459</u> | <u>1,071,925</u> | <u>133,249</u> | <u>1,508,441</u> | <u>1,075,747</u> |
| <u>(277,627)</u> | <u>318,228</u> | <u>(234,209)</u> | <u>(171,502)</u> | <u>356,215</u> | <u>(1,283,440)</u> | <u>(770,477)</u> |
| - | - | - | - | - | - | 30,082 |
| 94,415 | - | - | 864,296 | - | - | 950,000 |
| - | - | - | (128,147) | (1,727,354) | - | (704,558) |
| <u>94,415</u> | <u>-</u> | <u>-</u> | <u>736,149</u> | <u>(1,727,354)</u> | <u>-</u> | <u>275,524</u> |
| (183,212) | 318,228 | (234,209) | 564,647 | (1,371,139) | (1,283,440) | (494,953) |
| <u>2,405,008</u> | <u>1,306,139</u> | <u>5,225,492</u> | <u>1,442,481</u> | <u>6,575,509</u> | <u>1,283,440</u> | <u>4,835,629</u> |
| <u>\$ 2,221,796</u> | <u>\$ 1,624,367</u> | <u>\$4,991,283</u> | <u>\$ 2,007,128</u> | <u>\$ 5,204,370</u> | <u>\$ -</u> | <u>\$ 4,340,676</u> |

CITY OF KENTWOOD, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2008

| | Debt Service Fund | Capital Projects Fund | Total Nonmajor Governmental Funds |
|---|----------------------------------|--------------------------------------|--|
| | Fund | Construction Fund | Funds |
| Revenue | | | |
| Taxes | \$ - | \$ - | \$ 501,893 |
| Special assessments | - | - | 4,686 |
| Intergovernmental | - | - | 776,040 |
| Licenses and permits | - | - | 17,929 |
| Charges for services | 868,905 | - | 1,201,886 |
| Investment income | - | 181,689 | 2,164,814 |
| Miscellaneous | - | - | 224,729 |
| | <u>868,905</u> | <u>181,689</u> | <u>4,891,977</u> |
| Total revenue | <u>868,905</u> | <u>181,689</u> | <u>4,891,977</u> |
| Expenditures | | | |
| Current: | | | |
| General government | - | - | 1,572,912 |
| Public safety | - | - | 15,000 |
| Highways and streets | - | - | 1,425,691 |
| Public works | - | - | 737,428 |
| Culture and recreation | - | - | 18,700 |
| Debt service: | | | |
| Principal | 1,260,000 | - | 1,260,000 |
| Interest | 761,108 | - | 761,108 |
| Capital outlay | - | 2,060,366 | 4,387,412 |
| | <u>2,021,108</u> | <u>2,060,366</u> | <u>10,178,251</u> |
| Total expenditures | <u>2,021,108</u> | <u>2,060,366</u> | <u>10,178,251</u> |
| Revenue (under) over expenditures | <u>(1,152,203)</u> | <u>(1,878,677)</u> | <u>(5,286,274)</u> |
| Other financing sources (uses) | | | |
| Sale of capital assets | - | - | 126,911 |
| Transfers in | 1,152,203 | - | 3,110,914 |
| Transfers out | - | - | (2,560,059) |
| | <u>1,152,203</u> | <u>-</u> | <u>677,766</u> |
| Total other financing sources (uses) | <u>1,152,203</u> | <u>-</u> | <u>677,766</u> |
| Net change in fund balances | - | (1,878,677) | (4,608,508) |
| Fund balances, beginning of year | <u>-</u> | <u>2,645,109</u> | <u>30,828,416</u> |
| Fund balances, end of year | <u><u>\$ -</u></u> | <u><u>\$ 766,432</u></u> | <u><u>\$ 26,219,908</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
DPW Equipment Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|----------------------------|-------------------------|--------------------------|---|
| Revenue | | | | |
| Charges for services - internal | \$ 332,400 | \$ 332,400 | \$ 200,000 | \$ (132,400) |
| Investment income | <u>60,000</u> | <u>60,000</u> | <u>145,508</u> | <u>85,508</u> |
| Total revenue | <u>392,400</u> | <u>392,400</u> | <u>345,508</u> | <u>(46,892)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 20,000 | 20,000 | 20,000 | - |
| Capital outlay | <u>344,800</u> | <u>644,800</u> | <u>605,785</u> | <u>(39,015)</u> |
| Total expenditures | <u>364,800</u> | <u>664,800</u> | <u>625,785</u> | <u>(39,015)</u> |
| Revenue over (under) expenditures | 27,600 | (272,400) | (280,277) | (7,877) |
| Other financing sources | | | | |
| Sale of capital assets | <u>5,000</u> | <u>85,000</u> | <u>94,709</u> | <u>9,709</u> |
| Net change in fund balance | 32,600 | (187,400) | (185,568) | 1,832 |
| Fund balance, beginning of year | <u>1,741,103</u> | <u>1,741,103</u> | <u>1,741,103</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,773,703</u> | <u>\$ 1,553,703</u> | <u>\$ 1,555,535</u> | <u>\$ 1,832</u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Fire Equipment Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|----------------------------|-------------------------|--------------------------|---|
| Revenue | | | | |
| Investment income | \$ 45,000 | \$ 45,000 | \$ 85,922 | \$ 40,922 |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 15,000 | 15,000 | 15,000 | - |
| Capital outlay | 180,000 | 180,000 | 64,613 | (115,387) |
| Total expenditures | 195,000 | 195,000 | 79,613 | (115,387) |
| Revenue (under) over expenditures | (150,000) | (150,000) | 6,309 | 156,309 |
| Other financing sources | | | | |
| Sale of capital assets | - | - | 2,120 | 2,120 |
| Transfers in | 200,000 | 200,000 | 50,000 | (150,000) |
| Total other financing sources | 200,000 | 200,000 | 52,120 | (147,880) |
| Net change in fund balance | 50,000 | 50,000 | 58,429 | 8,429 |
| Fund balance, beginning of year | 1,200,987 | 1,200,987 | 1,200,987 | - |
| Fund balance, end of year | <u>\$ 1,250,987</u> | <u>\$ 1,250,987</u> | <u>\$ 1,259,416</u> | <u>\$ 8,429</u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Economic Development Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|----------------------------------|----------------------------|-------------------------|--------------------------|---|
| Revenue | | | | |
| Investment income | \$ 30,000 | \$ 30,000 | \$ 62,174 | \$ 32,174 |
| Licenses and permits | 25,000 | 25,000 | 17,929 | (7,071) |
| | <u>55,000</u> | <u>55,000</u> | <u>80,103</u> | <u>25,103</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 5,600 | 5,600 | 5,000 | (600) |
| Employee benefits | 3,200 | 3,200 | 2,592 | (608) |
| Contractual services | 58,400 | 58,400 | 14,900 | (43,500) |
| Salaries | 17,500 | 17,500 | 18,884 | 1,384 |
| Miscellaneous | 21,500 | 21,500 | 13,312 | (8,188) |
| | <u>106,200</u> | <u>106,200</u> | <u>54,688</u> | <u>(51,512)</u> |
| Total expenditures | | | | |
| | <u>106,200</u> | <u>106,200</u> | <u>54,688</u> | <u>(51,512)</u> |
| Net change in fund balance | (51,200) | (51,200) | 25,415 | 76,615 |
| Fund balance, beginning of year | 914,377 | 914,377 | 914,377 | - |
| Fund balance, end of year | <u>\$ 863,177</u> | <u>\$ 863,177</u> | <u>\$ 939,792</u> | <u>\$ 76,615</u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Housing Commission Fund
For the Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|----------------------------------|----------------------------|-------------------------|--------------------------|---|
| Revenue | | | | |
| Investment income | \$ 7,000 | \$ 7,000 | \$ 12,791 | \$ 5,791 |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 2,900 | 2,900 | 2,300 | (600) |
| Employee benefits | 1,200 | 1,200 | 836 | (364) |
| Salaries | 5,300 | 5,300 | 5,740 | 440 |
| Supplies | 3,300 | 3,300 | 907 | (2,393) |
| Total expenditures | 12,700 | 12,700 | 9,783 | (2,917) |
| Net change in fund balance | (5,700) | (5,700) | 3,008 | 8,708 |
| Fund balance, beginning of year | 217,538 | 217,538 | 217,538 | - |
| Fund balance, end of year | \$ 211,838 | \$ 211,838 | \$ 220,546 | \$ 8,708 |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Parks Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|----------------------------------|----------------------------|--------------------------|----------------------------|---|
| Revenue | | | | |
| Taxes | \$ 209,200 | \$ 209,200 | \$ 200,757 | \$ (8,443) |
| Intergovernmental | 99,500 | 99,500 | 85,243 | (14,257) |
| Investment income | 35,000 | 35,000 | 81,459 | 46,459 |
| Miscellaneous | - | - | 60,000 | 60,000 |
| | <u>343,700</u> | <u>343,700</u> | <u>427,459</u> | <u>83,759</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 18,800 | 18,800 | 18,700 | (100) |
| Capital outlay | <u>516,000</u> | <u>516,000</u> | <u>355,796</u> | <u>(160,204)</u> |
| Total expenditures | <u>534,800</u> | <u>534,800</u> | <u>374,496</u> | <u>(160,304)</u> |
| Net change in fund balance | (191,100) | (191,100) | 52,963 | 244,063 |
| Fund balance, beginning of year | <u>1,035,604</u> | <u>1,035,604</u> | <u>1,035,604</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 844,504</u></u> | <u><u>\$ 844,504</u></u> | <u><u>\$ 1,088,567</u></u> | <u><u>\$ 244,063</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Street Lighting Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|---|
| Revenue | | | | |
| Investment income | <u>\$ 70,000</u> | <u>\$ 70,000</u> | <u>\$ 167,995</u> | <u>\$ 97,995</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administrative | 31,000 | 31,000 | 31,000 | - |
| Utilities | 360,000 | 410,000 | 400,796 | (9,204) |
| Property tax refunds | - | - | 13,699 | 13,699 |
| Miscellaneous | <u>5,000</u> | <u>5,000</u> | <u>127</u> | <u>(4,873)</u> |
| Total expenditures | <u>396,000</u> | <u>446,000</u> | <u>445,622</u> | <u>(378)</u> |
| Revenue (under) over expenditures | (326,000) | (376,000) | (277,627) | 98,373 |
| Other financing sources | | | | |
| Transfers in | <u>-</u> | <u>75,000</u> | <u>94,415</u> | <u>19,415</u> |
| Net change in fund balance | (326,000) | (301,000) | (183,212) | 117,788 |
| Fund balance, beginning of year | <u>2,405,008</u> | <u>2,405,008</u> | <u>2,405,008</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 2,079,008</u></u> | <u><u>\$ 2,104,008</u></u> | <u><u>\$ 2,221,796</u></u> | <u><u>\$ 117,788</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Landfill Remediation Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|----------------------------------|----------------------------|----------------------------|----------------------------|---|
| Revenue | | | | |
| Taxes | \$ 313,800 | \$ 313,800 | \$ 301,136 | \$ (12,664) |
| Investment income | <u>45,000</u> | <u>45,000</u> | <u>117,061</u> | <u>72,061</u> |
| Total revenue | <u>358,800</u> | <u>358,800</u> | <u>418,197</u> | <u>59,397</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 28,200 | 28,200 | 28,100 | (100) |
| Landfill expense | <u>100,000</u> | <u>100,000</u> | <u>71,869</u> | <u>(28,131)</u> |
| Total expenditures | <u>128,200</u> | <u>128,200</u> | <u>99,969</u> | <u>(28,231)</u> |
| Net change in fund balance | 230,600 | 230,600 | 318,228 | 87,628 |
| Fund balance, beginning of year | <u>1,306,139</u> | <u>1,306,139</u> | <u>1,306,139</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 1,536,739</u></u> | <u><u>\$ 1,536,739</u></u> | <u><u>\$ 1,624,367</u></u> | <u><u>\$ 87,628</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Drain Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|----------------------------------|----------------------------|----------------------------|----------------------------|---|
| Revenue | | | | |
| Special assessments | \$ - | \$ - | \$ 4,686 | \$ 4,686 |
| Investment income | <u>130,000</u> | <u>130,000</u> | <u>378,564</u> | <u>248,564</u> |
| Total revenue | <u>130,000</u> | <u>130,000</u> | <u>383,250</u> | <u>253,250</u> |
| Expenditures | | | | |
| Current: | | | | |
| Engineering | 159,400 | 159,400 | 139,023 | (20,377) |
| Administrative | 60,000 | 60,000 | 60,000 | - |
| Maintenance | 1,082,000 | 1,082,000 | 380,592 | (701,408) |
| Miscellaneous | <u>55,000</u> | <u>55,000</u> | <u>37,844</u> | <u>(17,156)</u> |
| Total expenditures | <u>1,356,400</u> | <u>1,356,400</u> | <u>617,459</u> | <u>(738,941)</u> |
| Net change in fund balance | (1,226,400) | (1,226,400) | (234,209) | 992,191 |
| Fund balance, beginning of year | <u>5,225,492</u> | <u>5,225,492</u> | <u>5,225,492</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 3,999,092</u></u> | <u><u>\$ 3,999,092</u></u> | <u><u>\$ 4,991,283</u></u> | <u><u>\$ 992,191</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Local Street Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|----------------------------|----------------------------|----------------------------|---|
| Revenue | | | | |
| Intergovernmental | \$ 689,300 | \$ 689,300 | \$ 668,371 | \$ (20,929) |
| Investment income | 45,000 | 45,000 | 88,789 | 43,789 |
| Miscellaneous | 145,000 | 145,000 | 143,263 | (1,737) |
| | <u>879,300</u> | <u>879,300</u> | <u>900,423</u> | <u>21,123</u> |
| Expenditures | | | | |
| Current: | | | | |
| Engineering | 361,100 | 361,100 | 87,295 | (273,805) |
| Administrative | 62,300 | 62,300 | 60,200 | (2,100) |
| Maintenance | 550,000 | 550,000 | 481,108 | (68,892) |
| Snow and ice removal | 275,000 | 445,000 | 264,326 | (180,674) |
| Traffic control | 20,000 | 20,000 | 5,285 | (14,715) |
| Miscellaneous | 7,900 | 7,900 | 5,971 | (1,929) |
| Capital outlay | 240,000 | 240,000 | 167,740 | (72,260) |
| | <u>1,516,300</u> | <u>1,686,300</u> | <u>1,071,925</u> | <u>(614,375)</u> |
| Total expenditures | <u>1,516,300</u> | <u>1,686,300</u> | <u>1,071,925</u> | <u>(614,375)</u> |
| Revenue (under) over expenditures | <u>(637,000)</u> | <u>(807,000)</u> | <u>(171,502)</u> | <u>635,498</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 240,000 | 850,000 | 864,296 | 14,296 |
| Transfers out | - | (125,000) | (128,147) | (3,147) |
| | <u>240,000</u> | <u>725,000</u> | <u>736,149</u> | <u>11,149</u> |
| Total other financing sources (uses) | <u>240,000</u> | <u>725,000</u> | <u>736,149</u> | <u>11,149</u> |
| Net change in fund balance | (157,000) | (82,000) | 564,647 | 646,647 |
| Fund balance, beginning of year | <u>1,442,481</u> | <u>1,442,481</u> | <u>1,442,481</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 1,285,481</u></u> | <u><u>\$ 1,360,481</u></u> | <u><u>\$ 2,007,128</u></u> | <u><u>\$ 646,647</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Municipal Street Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|----------------------------------|----------------------------|----------------------------|----------------------------|---|
| Revenue | | | | |
| Investment income | <u>\$ 200,000</u> | <u>\$ 200,000</u> | <u>\$ 489,464</u> | <u>\$ 289,464</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administrative | 55,000 | 55,000 | 55,000 | - |
| Property tax refunds | - | - | 20,884 | 20,884 |
| Capital outlay | <u>35,000</u> | <u>35,000</u> | <u>57,365</u> | <u>22,365</u> |
| Total expenditures | <u>90,000</u> | <u>90,000</u> | <u>133,249</u> | <u>43,249</u> |
| Revenue over expenditures | 110,000 | 110,000 | 356,215 | 246,215 |
| Other financing uses | | | | |
| Transfers out | <u>(240,000)</u> | <u>(1,630,000)</u> | <u>(1,727,354)</u> | <u>(97,354)</u> |
| Net change in fund balance | (130,000) | (1,520,000) | (1,371,139) | 148,861 |
| Fund balance, beginning of year | <u>6,575,509</u> | <u>6,575,509</u> | <u>6,575,509</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 6,445,509</u></u> | <u><u>\$ 5,055,509</u></u> | <u><u>\$ 5,204,370</u></u> | <u><u>\$ 148,861</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Postemployment Benefits Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|----------------------------------|----------------------------|----------------------------|--------------------------|---|
| Revenue | | | | |
| Charges for services - internal | \$ 299,300 | \$ 299,300 | \$ 132,981 | \$ (166,319) |
| Investment income | <u>35,000</u> | <u>35,000</u> | <u>92,020</u> | <u>57,020</u> |
| Total revenue | <u>334,300</u> | <u>334,300</u> | <u>225,001</u> | <u>(109,299)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Contractual services | 12,000 | 12,000 | 9,066 | (2,934) |
| Benefit payments | 12,000 | 12,000 | 14,045 | 2,045 |
| Contribution to OPEB trust fund | <u>-</u> | <u>-</u> | <u>1,485,330</u> | <u>1,485,330</u> |
| Total expenditures | <u>24,000</u> | <u>24,000</u> | <u>1,508,441</u> | <u>1,484,441</u> |
| Net change in fund balance | 310,300 | 310,300 | (1,283,440) | (1,593,740) |
| Fund balance, beginning of year | <u>1,283,440</u> | <u>1,283,440</u> | <u>1,283,440</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 1,593,740</u></u> | <u><u>\$ 1,593,740</u></u> | <u><u>\$ -</u></u> | <u><u>\$(1,593,740)</u></u> |

CITY OF KENTWOOD, MICHIGAN
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Property and Building Fund
For the Year Ended June 30, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amount</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|----------------------------|----------------------------|----------------------------|---|
| Revenues | | | | |
| Intergovernmental | \$ - | \$ - | \$ 22,426 | \$ 22,426 |
| Investment income | 100,000 | 100,000 | 261,378 | 161,378 |
| Miscellaneous | - | - | 21,466 | 21,466 |
| | <u>100,000</u> | <u>100,000</u> | <u>305,270</u> | <u>205,270</u> |
| Expenditures | | | | |
| Capital outlay | <u>1,687,600</u> | <u>1,687,600</u> | <u>1,075,747</u> | <u>(611,853)</u> |
| Revenue (under) over expenditures | <u>(1,587,600)</u> | <u>(1,587,600)</u> | <u>(770,477)</u> | <u>817,123</u> |
| Other financing sources (uses) | | | | |
| Sale of capital assets | 25,000 | 25,000 | 30,082 | 5,082 |
| Transfers in | 495,000 | 495,000 | 950,000 | 455,000 |
| Transfers out | <u>(704,700)</u> | <u>(704,700)</u> | <u>(704,558)</u> | <u>142</u> |
| Total other financing sources (uses) | <u>(184,700)</u> | <u>(184,700)</u> | <u>275,524</u> | <u>460,224</u> |
| Net change in fund balance | (1,772,300) | (1,772,300) | (494,953) | 1,277,347 |
| Fund balance, beginning of year | <u>4,835,629</u> | <u>4,835,629</u> | <u>4,835,629</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 3,063,329</u></u> | <u><u>\$ 3,063,329</u></u> | <u><u>\$ 4,340,676</u></u> | <u><u>\$ 1,277,347</u></u> |

FIDUCIARY FUNDS

CITY OF KENTWOOD, MICHIGAN
Combining Statement of Net Assets
Pension and Other Postemployment Benefits Trust Funds
June 30, 2008

| | <u>Pension Trust</u> | <u>OPEB Trust</u> | |
|--|----------------------------|------------------------------------|----------------------|
| Assets | Defined Benefit | Postemployment Benefits | Total |
| Cash and pooled investments | \$ 2,628,767 | \$ 1,485,330 | \$ 4,114,097 |
| Interest receivable | 346,195 | - | 346,195 |
| Investments: | | | |
| Bonds | 6,807,629 | - | 6,807,629 |
| Equities | 10,777,162 | - | 10,777,162 |
| International | 1,012,414 | - | 1,012,414 |
| Total assets | <u>21,572,167</u> | <u>1,485,330</u> | <u>23,057,497</u> |
| Liabilities | | | |
| Accounts payable | 36,254 | - | 36,254 |
| Benefits payable | 514,522 | - | 514,522 |
| Total liabilities | <u>550,776</u> | <u>-</u> | <u>550,776</u> |
| Net assets | | | |
| Held in trust for pension and other postemployment benefits | <u>\$ 21,021,391</u> | <u>\$ 1,485,330</u> | <u>\$ 22,506,721</u> |

CITY OF KENTWOOD, MICHIGAN
Combining Statement of Changes in Net Assets
Pension and Other Postemployment Benefits Trust Funds
For the Year Ended June 30, 2008

| | Pension Trust Defined Benefit | OPEB Trust Postemployment Benefits | Total |
|---------------------------------------|--|---|-----------------------------|
| Additions | | | |
| Contributions: | | | |
| Employer - current year | \$ 880,000 | \$ 132,981 | \$ 1,012,981 |
| Employer - accumulated in prior years | - | 1,352,349 | 1,352,349 |
| Plan participants | 198,539 | - | 198,539 |
| Total contributions | <u>1,078,539</u> | <u>1,485,330</u> | <u>2,563,869</u> |
| Investment income | <u>1,434,258</u> | <u>-</u> | <u>1,434,258</u> |
| Total additions | <u>2,512,797</u> | <u>1,485,330</u> | <u>3,998,127</u> |
| Deductions | | | |
| Distributions and benefit payments | 1,048,647 | - | 1,048,647 |
| Administrative expenses | <u>63,279</u> | <u>-</u> | <u>63,279</u> |
| Total deductions | <u>1,111,926</u> | <u>-</u> | <u>1,111,926</u> |
| Change in net assets | 1,400,871 | 1,485,330 | 2,886,201 |
| Net assets held in trust | | | |
| Beginning of year | <u>19,620,520</u> | <u>-</u> | <u>19,620,520</u> |
| End of year | <u><u>\$ 21,021,391</u></u> | <u><u>\$ 1,485,330</u></u> | <u><u>\$ 22,506,721</u></u> |

CITY OF KENTWOOD, MICHIGAN
Fiduciary Fund
Statement of Changes in Assets and Liabilities
Tax Collection Fund
For the Year Ended June 30, 2008

| | <u>Balance</u> <u>June 30, 2007</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2008</u> |
|-----------------------------|--|------------------|-------------------|--|
| Assets | | | | |
| Cash and pooled investments | \$ 700,057 | \$ 91,447,946 | \$ (91,510,314) | \$ 637,689 |
| Liabilities | | | | |
| Due to other governments | \$ 700,057 | \$ 91,447,946 | \$ (91,510,314) | \$ 637,689 |

**INTERNAL CONTROL
AND
COMPLIANCE**



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 8, 2008

Honorable Mayor and City Commissioners
City of Kentwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Kentwood, Michigan**, as of and for the year ended June 30, 2008 and have issued our report thereon dated December 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kentwood's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kentwood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kentwood's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding 2008-1 – Material Audit Adjustments

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified two material adjustments, which were approved by management. One adjustment was made to correct the year-end balance for prepaid items. In addition, we identified and management agreed to a material prior period adjustment to restate beginning construction in progress to include certain capital additions from the years 2004 through 2007, which had been expensed rather than capitalized in those periods.

| | |
|---------------------------------------|---|
| Cause: | This condition was the result of an oversight by management in posting one adjusting journal entry for prepaid workers' compensation insurance and past errors in identifying capital asset additions. |
| Effect: | As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements. |
| Recommendation: | We recommend that the City carefully review all financial information prior to the audit to reduce the likelihood of future adjustments. |
| View of Responsible Officials: | <p>Regarding the initial misstatement of the prepaid item: The year-end journal entry to adjust the prepaid workers' compensation insurance account was prepared in advance of the audit, but was inadvertently filed un-posted. An additional review of the trial balance will be performed next year prior to its submission for audit.</p> <p>Regarding the restatement of beginning capital in progress: Work paper formats created and used during this year's audit to collect capital asset information will be used in preparation for future audits to reduce the possibility of reoccurrence.</p> |

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kentwood, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Kentwood in a separate letter dated December 8, 2008.

The City of Kentwood, Michigan's response to the finding identified in our audit is described above. We did not audit the City of Kentwood, Michigan's response and, accordingly, we express not opinion on it.

This report is intended solely for the information and use of the management, the City Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Continuing Disclosure Filing

City of Kentwood County of Kent, State of Michigan



*Fiscal Year Ended
June 30, 2008*

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: NRMSIR@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

STATE INFORMATION DEPOSITORY (SID)

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, MI 48226-3517
Phone: (313) 963-0420
Fax: (313) 963-0943
E-mail: mac@macmi.com

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Kentwood, Michigan

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:
☒ Information relates to **all securities** issued by the issuer having the following six-digit number (s):
491735, 491728

* * *

Number of pages of attached information:

Description of Material Event Notice / Financial Information (Check One):

1. ☐ Principal and interest payment delinquencies
2. ☐ Non-Payment related defaults
3. ☐ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ☐ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ☐ Substitution of credit or liquidity providers, or their failure to perform
6. ☐ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ☐ Modifications to rights of securities holders
8. ☐ Bond calls
9. ☐ Defeasances
10. ☐ Release, substitution, or sale of property securing repayment of the securities
11. ☐ Rating changes
12. ☐ Failure to provide annual financial information as required
13. ☐ Other material event notice (specify) New Bond Issue
14. ☒ Financial information*: Please check all appropriate boxes:

☒ CAFR: (a) ☐ include ☒ does not include Annual Financial Information

(b) Audited? Yes ☒ No ☐

☒ Annual Financial Information: Audited? Yes ☐ No ☒

☐ Operating Data

Fiscal Period Covered: June 30, 2008

*Financial information **should not** be filed with the MSRB

* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: Thomas H. Chase

Name: Thomas H. Chase Title: Finance Director

Employer: City of Kentwood

Address: 4900 Breton Ave., SE, P.O. Box 8848

City, State, Zip Code: Kentwood, Michigan 49518-8848

Voice Telephone Number: (616) 698-9610

City of Kentwood
Taxable Value
Fiscal Years Ended or Ending June 30, 2005 Through 2009

| Assessed Value as of <u>December 31</u> | Year of State Equalization <u>And Tax Levy</u> | City's Fiscal Years Ended or Ending <u>June 30</u> | Ad Valorem Taxable <u>Value</u> | Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 <u>(1)</u> | Total Taxable <u>Value</u> | Percent Increase Over <u>Prior Year</u> |
|--|--|---|--|--|----------------------------------|--|
| 2003 | 2004 | 2005 | \$1,826,173,501 | \$33,394,953 | \$1,859,568,454 | 2.34% |
| 2004 | 2005 | 2006 | 1,900,923,141 | 36,543,162 | 1,937,466,303 | 4.19 |
| 2005 | 2006 | 2007 | 1,998,526,213 | 32,448,810 | 2,030,975,023 | 4.83 |
| 2006 | 2007 | 2008 | 2,058,184,649 | 43,597,259 | 2,101,781,908 | 3.49 |
| 2007 | 2008 | 2009 | 2,084,515,373 | 46,130,000 | 2,130,645,373 | 1.37 |
| Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2009 (2)..... | | | | | | \$47,081 |

(1) At the full tax rate. See "Tax Abatement" herein.

(2) Based on the City's 2000 Census of 45,255.

Source: City of Kentwood

City of Kentwood
Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2005 Through 2009

| | <u>Fiscal Years Ended or Ending June 30</u> | | | | |
|-------------------------|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <u>Use</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| Commercial | \$ 537,146,512 | \$ 569,006,384 | \$ 621,903,122 | \$ 640,061,677 | \$ 657,328,452 |
| Industrial..... | 512,709,964 | 519,919,013 | 524,650,493 | 538,284,963 | 541,592,941 |
| Residential..... | 781,242,073 | 818,775,227 | 864,258,198 | 903,060,168 | 911,013,280 |
| Utility | 28,469,905 | 29,765,679 | 20,163,210 | 20,375,100 | 20,710,700 |
| | <u>\$1,859,568,454</u> | <u>\$ 1,937,466,303</u> | <u>\$ 2,030,975,023</u> | <u>\$ 2,101,781,908</u> | <u>\$ 2,130,645,373</u> |
| <u>Class</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| Real Property | \$1,572,016,649 | \$ 1,640,326,624 | \$ 1,747,546,913 | \$ 1,816,496,308 | \$ 1,834,513,623 |
| Personal Property | 287,551,805 | 297,139,679 | 283,428,110 | 285,285,600 | 296,131,750 |
| | <u>\$1,859,568,454</u> | <u>\$ 1,937,466,303</u> | <u>\$ 2,030,975,023</u> | <u>\$ 2,101,781,908</u> | <u>\$ 2,130,645,373</u> |

Source: City of Kentwood

City of Kentwood
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2005 Through 2009

| Assessed Value as of <u>December 31</u> | Year of State Equalization and Tax Levy | City's Fiscal Years Ended or Ending <u>June 30</u> | Ad Valorem <u>SEV</u> | SEV of Property Granted Tax Abatement Under Act 198 (1) | Total <u>SEV</u> | Percent Increase Over Prior Year |
|---|---|---|-----------------------------|--|---------------------|---|
| 2003 | 2004 | 2005 | \$1,984,700,850 | \$66,487,700 | \$2,051,188,550 | 2.67% |
| 2004 | 2005 | 2006 | 2,064,614,200 | 72,510,262 | 2,137,124,462 | 4.19 |
| 2005 | 2006 | 2007 | 2,154,463,200 | 65,051,500 | 2,219,514,700 | 3.86 |
| 2006 | 2007 | 2008 | 2,194,290,650 | 87,211,600 | 2,281,502,250 | 2.79 |
| 2007 | 2008 | 2009 | 2,201,671,700 | 92,260,000 | 2,293,931,700 | 0.54 |
| Per Capita Total SEV for the Fiscal Year Ending June 30, 2009 (2) | | | | | | \$50,689 |

(1) See "Tax Abatement" herein.

(2) Based on the City's 2000 Census of 45,255.

Source: City of Kentwood

City of Kentwood
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2005 Through 2009

| <u>Use</u> | Fiscal Years Ended or Ending June 30 | | | | |
|-------------------|--------------------------------------|------------------------|------------------------|------------------------|------------------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
| Commercial | \$ 582,210,200 | \$ 617,443,200 | \$ 664,869,000 | \$ 681,904,950 | \$ 698,405,400 |
| Industrial | 565,033,900 | 573,907,562 | 577,269,900 | 601,596,700 | 604,540,900 |
| Residential | 873,766,450 | 914,897,800 | 957,209,300 | 977,625,500 | 970,274,700 |
| Utility | <u>30,178,000</u> | <u>30,875,900</u> | <u>20,166,500</u> | <u>20,375,100</u> | <u>20,710,700</u> |
| | <u>\$ 2,051,188,550</u> | <u>\$2,137,124,462</u> | <u>\$2,219,514,700</u> | <u>\$2,281,502,250</u> | <u>\$2,293,931,700</u> |

| <u>Class</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|------------------------|-------------------------|------------------------|------------------------|------------------------|------------------------|
| Real Property | \$ 1,743,215,950 | \$1,818,333,062 | \$1,915,717,200 | \$1,970,327,950 | \$1,967,758,700 |
| Personal Property | <u>307,972,600</u> | <u>318,791,400</u> | <u>303,797,500</u> | <u>311,174,300</u> | <u>326,173,000</u> |
| | <u>\$ 2,051,188,550</u> | <u>\$2,137,124,462</u> | <u>\$2,219,514,700</u> | <u>\$2,281,502,250</u> | <u>\$2,293,931,700</u> |

Source: City of Kentwood

Tax Abatement

The City's SEV and Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 (the "Act"). The Act was designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Act, a local governmental unit (i.e., a city, village or township) may establish plant rehabilitation districts, industrial development districts, and offer industrial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial facilities exemption certificate granted under the Act entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities tax (the "IFT Tax"). For properties granted tax abatement under Act 198 there exists a separate tax roll referred to as the industrial facilities tax roll (the "IFT Tax Roll"). The IFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the SEV level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals 1/2 of all tax rates levied by other than the state and local school district for operating

purposes plus 1/2 of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals 1/2 of all tax rates levied by other than the State plus none, 1/2 or all of the state tax rate (as determined by the State Treasurer).

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under the Act 198, removed from the Ad Valorem Tax Roll and placed on the IFT Tax Roll totaled \$92,260,000 for the fiscal year ending June 30, 2009. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$46,130,000 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

The City's SEV and Taxable Value includes the value of qualified property located within the City's Tool & Die Renaissance Zone (the "Zone") which was created pursuant to the provisions of Act 376, Public Acts of Michigan, 1996 ("Act 376"), as amended. Act 376 was designed to stimulate private investment within the Zone through the abatement of certain property, income and business taxes. For the fiscal year ending June 30, 2009, the SEV and equivalent Taxable Value of property qualified for the benefits of the Zone program totaled \$9,675,600 and \$9,525,330, respectively.

**City of Kentwood
Maximum Operating Tax Rates
Fiscal Year Ending June 30, 2009**

| <u>Millage Classification</u> | <u>Millage Authorized</u> | <u>Cumulative Millage Reduction Fraction</u> | <u>Maximum Allowable Millage</u> |
|-----------------------------------|-------------------------------|--|--------------------------------------|
| General Operating (1) | 3.0000 | 0.9983 | 2.9946 |
| Police and Fire (1)..... | 4.2620 | 1.0000 | 4.2620 |
| Parks (2) | 0.1000 | 0.9983 | 0.0998 |
| Landfill Remediation (4)..... | 0.1500 | 0.9983 | 0.1497 |

**City of Kentwood
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2005 Through 2009**

| <u>Levy July 1</u> | <u>Fiscal Years Ended or Ending June 30</u> | <u>General Operating (1)</u> | <u>Police and Fire (1)</u> | <u>Parks (2)</u> | <u>Streets and Bridges (3)</u> | <u>Landfill Remediation (4)</u> | <u>Street Lighting (5)</u> | <u>Total</u> |
|------------------------|---|----------------------------------|--------------------------------|------------------|------------------------------------|-------------------------------------|--------------------------------|--------------|
| 2004 | 2005 | \$2.9946 | \$3.7932 | \$0.0998 | \$0.2995 | \$0.1497 | \$0.1950 | \$7.5318 |
| 2005 | 2006 | 2.9946 | 3.7932 | 0.0998 | 0.2995 | 0.1497 | 0.1950 | 7.5318 |
| 2006 | 2007 | 2.9946 | 3.7932 | 0.0998 | 0.2995 | 0.1497 | 0.1950 | 7.5318 |
| 2007 | 2008 | 2.9946 | 4.2620 | 0.0998 | 0.0000 | 0.1497 | 0.0000 | 7.5061 |
| 2008 | 2009 | 2.9946 | 4.2620 | 0.0998 | 0.0000 | 0.1497 | 0.0000 | 7.5061 |

Footnotes for the above "Maximum Operating Tax Rates" and "Property Tax Rates" schedules:

- (1) Authorized by the City Charter. On August 8, 2006, the City's electorate approved a 0.4688 mill increase to the Police and Fire Millage effective July 1, 2007.
- (2) Authorized by the City's electorate through 2013 levy.
- (3) Originally authorized by City's electorate through 2013 levy. On August 8, 2006, the City's electorate discontinued this millage effective July 1, 2007.
- (4) Authorized by the City's electorate through 2008 levy.
- (5) Special assessment on all real property within the City approved annually by the City Commission. On August 8, 2006, the City's electorate discontinued this millage effective July 1, 2007.

Source: City of Kentwood

City of Kentwood
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2004 Through 2008

| <u>Governmental Unit</u> | <u>Fiscal Years Ended or Ending June 30</u> | | | | |
|--|---|------------------|------------------|------------------|------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
| City of Kentwood | \$7.5318 | \$7.5318 | \$7.5318 | \$7.5318 | \$7.5061 |
| County of Kent | 5.3140 | 5.3140 | 5.3140 | 5.3940 | 5.3940 |
| State of Michigan | 5.0000 | 6.0000 | 6.0000 | 6.0000 | 6.0000 |
| Kentwood Public Schools (2) | 5.3922 | 5.6922 | 5.8742 | 6.2000 | 6.0000 |
| Kent Intermediate School District | 3.7903 | 4.5333 | 4.6453 | 4.6903 | 4.6903 |
| Grand Rapids Community College | 1.7865 | 1.7865 | 1.7865 | 1.7865 | 1.7865 |
| Interurban Transit Authority | 0.7603 | 0.9500 | 0.9500 | 0.9500 | 0.9500 |
| Kent District Library Authority ... | <u>0.8710</u> | <u>0.8800</u> | <u>0.8800</u> | <u>0.8800</u> | <u>0.8800</u> |
| Total | <u>\$30.4461</u> | <u>\$32.6878</u> | <u>\$32.9818</u> | <u>\$33.4326</u> | <u>\$33.2069</u> |

City of Kentwood
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2004 Through 2008

| <u>Governmental Unit</u> | <u>Fiscal Years Ended or Ending June 30</u> | | | | |
|--|---|------------------|------------------|------------------|------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
| City of Kentwood | \$7.5318 | \$7.5318 | \$7.5318 | \$7.5318 | \$7.5061 |
| County of Kent | 5.3140 | 5.3140 | 5.3140 | 5.3940 | 5.3940 |
| State of Michigan | 5.0000 | 6.0000 | 6.0000 | 6.0000 | 6.0000 |
| Kentwood Public Schools (2) | 23.3922 | 23.6922 | 23.8742 | 24.2000 | 24.0000 |
| Kent Intermediate School District | 3.7903 | 4.5333 | 4.6453 | 4.6903 | 4.6903 |
| Grand Rapids Community College | 1.7865 | 1.7865 | 1.7865 | 1.7865 | 1.7865 |
| Interurban Transit Authority | 0.7603 | 0.9500 | 0.9500 | 0.9500 | 0.9500 |
| Kent District Library Authority ... | <u>0.8710</u> | <u>0.8800</u> | <u>0.8800</u> | <u>0.8800</u> | <u>0.8800</u> |
| Total | <u>\$48.4461</u> | <u>\$50.6878</u> | <u>\$50.9818</u> | <u>\$51.4326</u> | <u>\$51.2069</u> |

- (1) *Principal Residence* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Principal residence includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Principal residence includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Principal residence also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-principal residence* is property not included in the above definition.
- (2) The Kentwood Public Schools is the largest school district within the City. Portions of other school districts overlap the City's boundaries. The lowest and highest non-principal residence millage rates for the other overlapping school districts for the fiscal year ending June 30, 2008 ranged from \$23.5000 to \$25.3000 for each \$1,000 of Taxable Value, respectively. The total tax rates for property owners in other school districts would change accordingly.

Source: City of Kentwood

City of Kentwood
Property Tax Collections (1)
Fiscal Years Ended or Ending June 30, 2005 Through 2009

| July 1 <u>Levy</u> | Fiscal Years Ended or Ending <u>June 30</u> | <u>Tax Levy</u> | Collections to March 1 <u>Following Levy</u> | Percent <u>Collected</u> |
|-----------------------|---|-----------------|--|-----------------------------|
| 2004 | 2005 | \$ 13,882,659 | \$ 13,582,113 | 97.8% |
| 2005 | 2006 | 14,493,155 | 14,180,442 | 97.8 |
| 2006 | 2007 | 15,188,009 | 14,818,324 | 97.6 |
| 2007 | 2008 | 15,680,756 | 15,280,232 | 97.4 |
| 2008 | 2009 | 15,925,221 | (In collection process) | |

(1) Includes the value of property granted tax abatement under Acts 198 and 255. See "Tax Abatement" herein.
Source: City of Kentwood

City of Kentwood
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2009

| <u>Taxpayers</u> | <u>Principal Product or Service</u> | <u>Taxable Value</u> | Equivalent Taxable Value of Property Granted Tax Abatement Under <u>Act 198(1)</u> | <u>Total Taxable Value</u> | Percent of <u>Total (2)</u> |
|-----------------------------|---|--------------------------|---|------------------------------------|-----------------------------------|
| Woodland Mall | Shopping Center..... | \$ 68,131,705 | \$ 0 | \$ 68,131,705 | 3.20% |
| Steelcase Corporation | Office Furniture..... | 46,511,659 | 485,600 | 46,997,259 | 2.21 |
| Holland Home | Senior Housing..... | 33,824,927 | 0 | 33,824,927 | 1.59 |
| Lacks Industries, Inc. | Automotive Supplier.. | 22,571,238 | 5,097,550 | 27,668,788 | 1.30 |
| Knoll, Inc. | Office Furniture..... | 20,828,000 | 754,600 | 21,582,600 | 1.01 |
| Consumers Energy | Utility | 15,563,871 | 0 | 15,563,871 | 0.73 |
| Woodland Creek Apts. | Apartment Housing ... | 14,977,267 | 0 | 14,977,267 | 0.70 |
| TIC G.R. Airport LLC. | Real Estate /Leasing.. | 12,797,500 | 0 | 12,797,500 | 0.60 |
| Advance Packaging Corp..... | Packaging..... | 2,186,898 | 9,007,250 | 11,194,148 | 0.53 |
| X-Rite..... | Machinery | 6,979,000 | 3,345,600 | 10,324,600 | 0.48 |
| | | <u>\$244,372,065</u> | <u>\$ 18,690,600</u> | <u>\$263,062,665</u> | <u>12.35%</u> |

(1) See "Tax Abatement" herein.

(2) Based on \$2,130,645,373 which is the City's Total Taxable Value for the fiscal year ended June 30, 2009. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Tax Abatement" herein.

Source: City of Kentwood

City of Kentwood
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2005 Through 2009

| | Fiscal Years Ended or Ending June 30 | | | | |
|--|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009 (2)</u> |
| State Sales Tax | \$ 3,483,182 | \$ 3,444,275 | \$ 3,341,302 | \$ 3,354,831 | \$ 3,367,300 |
| Liquor License Fees | <u>19,589</u> | <u>20,018</u> | <u>22,168</u> | <u>20,198</u> | <u>20,000</u> |
| Total Revenues From the State of Michigan | <u>\$ 3,502,771</u> | <u>\$ 3,464,293</u> | <u>\$ 3,363,470</u> | <u>\$ 3,375,029</u> | <u>\$ 3,387,300</u> |
| Percent of General Fund Revenue | 14.96% | 14.31% | 13.26% | 13.12% | 12.47% |

(1) As estimated

(2) As budgeted.

Source: City of Kentwood

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of June 30, 2008.

| | |
|------------------------|----------------------|
| Debt Limit (1) | \$ 228,150,225 |
| Debt Outstanding..... | \$18,485,000 |
| Less: Exempt Debt..... | <u>4,170,000</u> |
| Legal Debt Margin..... | <u>\$213,835,225</u> |

(1) 10% of \$2,281,502,250 which is the City's Total SEV for the fiscal year ending June 30, 2008. Includes the SEV of property granted tax abatement under Act 198.

Source: Municipal Advisory Council of Michigan and the City of Kentwood.

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of June 30, 2008 including the Bonds described herein. Direct debt that is shown as self-supporting is paid from sources other than the City's General Fund.

| <u>City Direct Debt</u> | <u>Gross</u> | <u>Self-Supporting</u> | <u>Net</u> |
|---|-----------------------|----------------------------|-----------------------|
| General Obligation Bonds: | | | |
| Dated March 23, 2005 | \$ 4,170,000 | \$ 4,170,000 | \$ 0 |
| Dated October 16, 2003 | 8,485,000 | 0 | 8,485,000 |
| Building Authority Bonds: | | | |
| Dated June 1, 2001 (LT) | <u>5,830,000</u> | <u>0</u> | <u>5,830,000</u> |
| Total | <u>\$ 18,485,000</u> | <u>\$ 4,170,000</u> | <u>\$ 14,315,000</u> |
| Per Capita Net City Direct Debt (1) | | | \$316.32 |
| Percent of Net Direct Debt to Total SEV (2) | | | 0.63% |
| | | | |
| <u>Overlapping Debt (3)</u> | <u>Gross</u> | Percent of <u>Gross</u> | <u>City Share</u> |
| Kentwood School District | \$ 94,623,000 | 69.67% | \$ 65,923,844 |
| Caledonia School District | 120,522,627 | 11.79 | 14,209,618 |
| Forest Hills School District | 216,210,000 | 6.42 | 13,880,682 |
| Kelloggsville School District | 15,620,000 | 36.92 | 5,766,904 |
| Kent County | 147,959,300 | 9.62 | 14,233,685 |
| Grand Rapids Community College | <u>47,445,000</u> | 9.37 | <u>4,445,597</u> |
| Total Overlapping Debt | <u>\$ 642,379,927</u> | | <u>\$ 118,460,330</u> |
| Total Direct & Overlapping Debt | <u>\$ 660,864,927</u> | | <u>\$ 132,775,330</u> |
| Per Capita Net Overlapping Debt (1) | | | \$2,617.62 |
| Percent of Net Overlapping Debt to Total SEV (2) | | | 5.19% |
| Per Capita Net Direct and Overlapping Debt (1) | | | \$2,933.94 |
| Percent of Net Direct and Overlapping Debt to Total SEV (2) | | | 5.82% |

(1) Based on the City's 2000 Census of 45,255.

(2) Based on \$2,281,502,250 which is the City's Total SEV for the fiscal year ending June 30, 2008. Includes the SEV of property granted tax abatement under Act 198.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and City of Kentwood.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

December 8, 2008

Honorable Mayor and City Commissioners
Kentwood, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Kentwood*** (the “City”) for the year ended June 30, 2008, and have issued our report thereon dated December 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 5, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on June 5, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. For the year ended June 30, 2008, the City implemented the provisions of GASB Statements 43 and 45 which added additional disclosures related to other postemployment benefits. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of other postemployment benefits expenses is based, in part, on certain actuarial assumptions.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. With the exception of the material audit adjustment described in our report on internal control and other matters, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated December 8, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of Kentwood and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

City of Kentwood
Comments and Recommendations
For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the City of Kentwood (the “City”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. The deficiencies we noted that we consider to be material weaknesses are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Other Matters

Liabilities Payable to Property Owners (Repeat Comment)

Over the years, the City has levied various “deferred” special assessments for which collection is delayed until certain conditions relating to property usage are met. In addition, certain assessments were initially levied to certain property owners, with the understanding that a portion of the assessment would be subsequently levied to other property owners and then refunded to the initial payer. The City uses the Special Assessment Deferred Payback Fund to account for amounts collected in this manner.

City of Kentwood
Comments and Recommendations
For the Year Ended June 30, 2008

During our audit, we noted that this fund currently contains a significant amount of resources that are being held pending identification of the appropriate entity to receive reimbursement for assessments previously paid. We understand that this balance has accumulated over the years due to difficulties in locating the appropriate property owners to reimburse. We recommend that management invest sufficient time in the current year to research these accounts and either disburse the amounts, or escheat unidentifiable funds to the State.

Industrial Facilities Tax (IFT) Penalty Refunds Payable

We noted that the City is carrying a liability of nearly \$700,000 in transfer penalties for IFT. These amounts are due and payable to outside parties. However the City has not prepared calculations for repayment of such funds. We recommend that the City prepare the calculations and take steps needed to allocate the funds.

Utility Billing Adjustments

During our audit, we noted that credit memos and other adjustments to utility billings are not subject to a formal process of internal review and approval. We understand that management of the Public Works Department is involved in verbally approving such transactions. However, we recommend that written approval be retained as evidence of this review.

Segregation of Duties – Independent Review and Approval of Bank Reconciliations

We noted that bank reconciliations are not consistently subject to a documented review and approval by an independent administrator or employee. In order to determine whether accounts are being reconciled on a timely basis, and to identify errors or misappropriation of assets, we recommend that the City implement a process to document the independent review and approval of all bank reconciliations.

Approval of Employee Expense Reports

In a random sample of 10 employee expense reimbursements, we noted that 3 were lacking evidence of approval. We understand that the accounts payable department reviews such reimbursement requests prior to processing checks. However, we recommend that employee expense reports be subject to the same standard as other invoices, and require signed approval by a responsible official (other than the individual receiving reimbursement) prior to processing.